CLARICA®

Building for the future

Annual Report 2001

Clarica at a glance

CLARICA IN CANADA	PRODUCTS & SERVICES	DISTRIBUTION & SUPPORT NETWORK
Retail Insurance	• Universal, Permanent & Term Life insurance • Critical Illness insurance • Personal Health insurance • Long Term Care insurance • Financial planning services	• Exclusive sales force of over 3,400 agents, managers and specialists • 1.5 million customers served from 90 offices across Canada
Wealth Management	*Retail wealth accumulation* • Mutual funds • Index funds • Segregated funds • Annuities • Guaranteed Investment Certificates • Registered Retirement Savings Plans • Registered Retirement Income Funds • Registered Education Savings Plans	• Exclusive sales force

	Pension and group savings
	• Defined contribution products including:
	  • Registered Pension Plans
	  • Registered Retirement Savings Plans
	  • Share purchase plans
	  • After-tax savings plans
	  • Post-retirement products
	• Money Management (Investment Only) services for Defined Benefit Pension Plans
		• Sales directors
		• Exclusive sales force
		• Brokers
		• Benefit consultants

Group Insurance	• Life insurance • Accidental death and dismemberment insurance • Health insurance including drug coverage • Dental insurance • Out-of-country emergency insurance with travel assistance • Short- and long-term disability insurance • Creditor insurance • Disability management services	• Group sales representatives • Exclusive sales force • Brokers • Benefit consultants
CLARICA IN THE UNITED STATES		
Insurance & Savings	• Individual Universal and Term Life insurance • Annuities • Financial planning	• Over 4,000 independent agents and 250 staff serving 225,000 individual customers across the United States; Independent marketing companies in conjunction with Ash Brokerage Corporation (subsidiary)
	• Bank Owned Life Insurance	• Key niche distributors working with community and mid-sized banks
	• Private placement variable universal life products for sophisticated investors and advisors	• Asset managers and wealth management firms
Reinsurance	• Customized life and financial reinsurance solutions	• Business-to-business support of life reinsurers and financial reinsurance brokers in North America and Europe
INVESTMENTS		
	• Portfolio management for Clarica's $27 billion invested assets • Asset class management includes: marketable bonds, commercial mortgages, corporate loans, stocks and real estate	• Branch network for various asset classes • Over 200 investment professionals and support staff

Why invest in Clarica?

We are a leading Canadian business

- A leading provider of insurance and investment products in the Canadian market
- Achieved company-wide growth over last year of 14% in gross premiums, deposits & equivalents
- Total assets under administration at December 31, 2001 of $47 billion

We have a track record of profitability

- Increased return on shareholders' equity to 14.4% in 2001, up significantly since demutualization in 1999
- Delivered growth in earnings per common share of 24% over 2000 results, exceeding our target of 10–15%
- Increased shareholder dividends twice in 2001, reflecting a commitment to shared profitability

Our exclusive sales force is a competitive advantage

- Expanded our exclusive sales force by 12% in 2001
- Maintained an industry leading four-year agent retention rate – currently at 31%
- Increased average retail insurance sales per agent by 16% over 2000 results

We have proven acquisition and integration capabilities

- Integrated the Canadian group retirement services business of the Royal Trust Company and Royal Trust Corporation of Canada in 2001 on schedule and within budget

We are committed to attractive growth strategies

- A customer-focused business model based on advice, choice and convenience
- Growth opportunities in wealth management and retail health insurance
- A continued focus on technology and e-business initiatives

CLARICA LIFE INSURANCE COMPANY has provided insurance and investment solutions for more than 130 years. Today, in addition to individual and group insurance, Clarica provides a full range of wealth management products. In Canada, Clarica serves approximately four million customers through 8,000 staff, financial planners, group representatives, and an exclusive sales force from 90 offices across the country. In the United States, Clarica serves 225,000 policyholders from three mid-western locations.

In July 1999, Clarica became a publicly traded company and introduced a powerful new brand with a promise of clarity through dialogue.

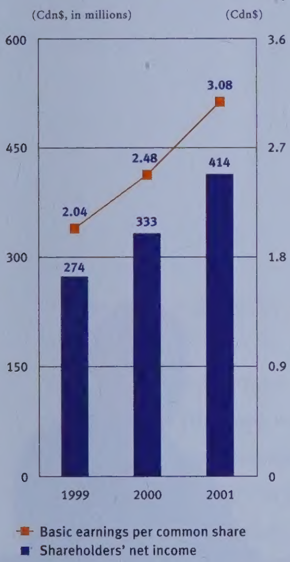
In December 2001, Clarica and Sun Life Financial Services of Canada Inc. announced an agreement to combine operations based on their shared vision of a world-class international financial services institution headquartered in Canada.

At the time of printing, this transaction was subject to approval by Clarica's shareholders and voting policyholders, as well as the receipt of all required regulatory approvals. This Annual Report reflects Clarica's financial position as at December 31, 2001 and our operations during 2001.

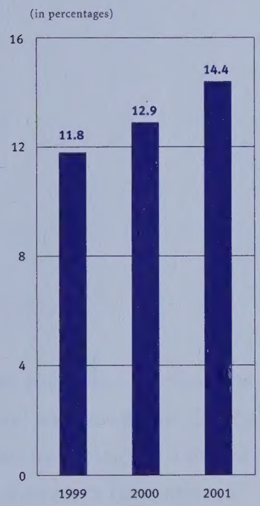
This Annual Report may contain statements about expected future events and financial results that are forward-looking in nature, and, as a result, are subject to certain risks and uncertainties. Clarica's actual results may differ materially due to a variety of factors, including legislative or regulatory developments, competition, technological change, global capital markets, interest rates and general economic conditions in North America or internationally. These and other factors should be considered carefully and participants should not place undue reliance on Clarica's forward-looking statements as set forth elsewhere in this Annual Report. The discussion of the financial conditions and results of operations of Clarica contained in this Annual Report should be read in conjunction with the consolidated financial statements and notes included elsewhere in this Annual Report.

Performance overview

Shareholders' net income & basic earnings per common share[1]



Return on shareholders' equity[1]



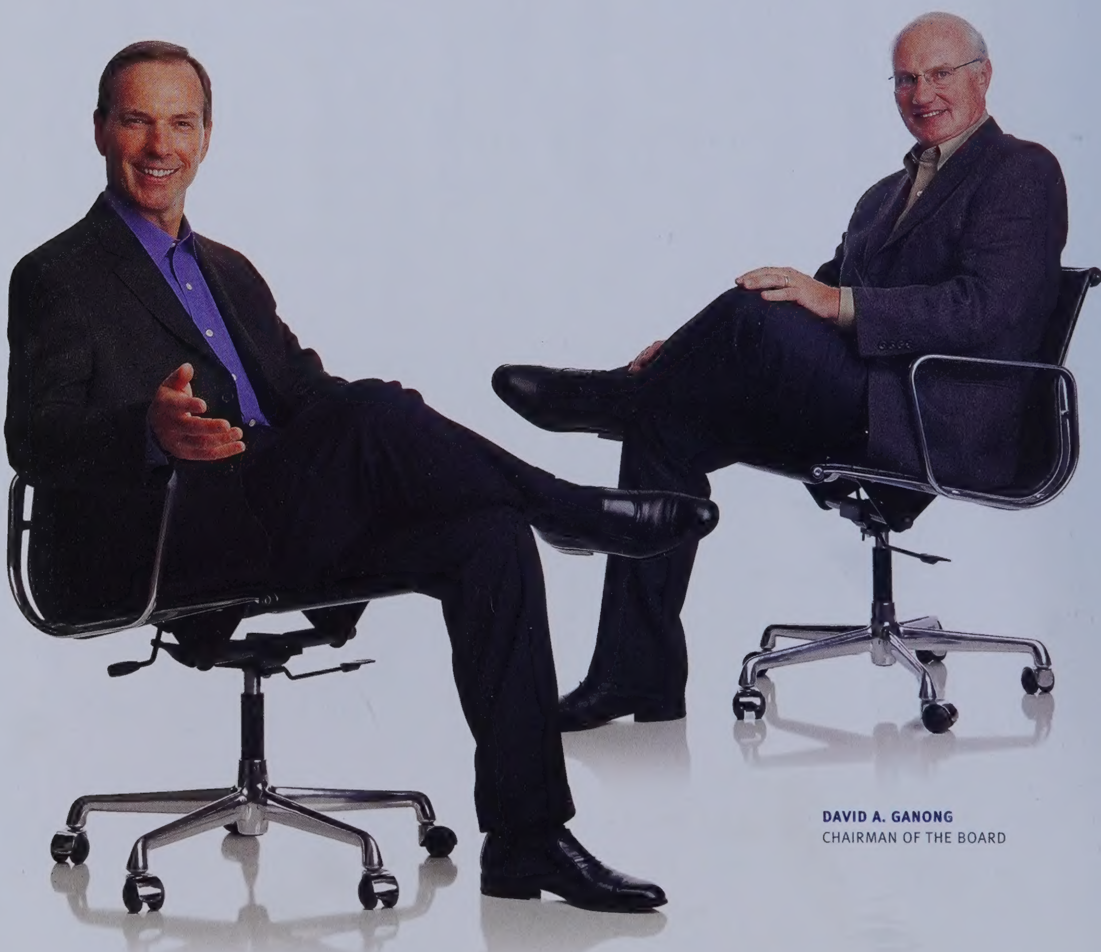
Gross premiums, deposits & equivalents[2]

MEASURE	2001 TARGET	2001 PERFORMANCE	2002 TARGET
Earnings per common share (annual growth)	10–15%	24%	10–15%
Return on shareholders' equity	13.0%	14.4%	14.5–15.0%
Gross premiums, deposits & equivalents (annual growth)	10%	14%	10%

1 1999 results are pro forma, reflecting the shareholder basis adopted upon demutualization July 21, 1999.

2 1999 and 2000 were restated to reflect current presentation.

Clarica is building a unique customer experience – one based on relationships, based on needs, based on clarity.



DAVID A. GANONG
CHAIRMAN OF THE BOARD

ROBERT M. ASTLEY
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

To our shareholders and policyholders

Letter from Bob Astley, President and CEO

Our journey continues. Almost three years ago, we took the momentous step of becoming a public company – a company with a new brand and new name: Clarica. We took that step because we believed that demutualization was the best way to unlock the value of ownership for our policyholders, and to enable the Company to grow and become more competitive.

Our policyholders agreed. With their endorsement, we became the first Canadian mutual life insurance company to initiate and complete the demutualization journey. And we've thrived in the public arena – with year-over-year earnings growth, record-breaking sales results and tangible returns for shareholders.

As we prepare this report for print, we're now asking our owners to vote on the next step of our journey – one that will catapult us into an even stronger leadership position. Our Board of Directors is recommending that voting policyholders and shareholders support a business combination of Clarica and Sun Life Financial Services of Canada Inc.*

For the last year, and especially with the passage of new financial services legislation, the issue of Clarica's ownership has been a topic of discussion from boardroom tables to water coolers, lecterns to lunchrooms. Our recent announcement has set the rumour mill in motion once again.

I'd like to share with you some of the questions I've been asked most often. I hope my answers provide you with some background on why Clarica's Board and management so strongly support the proposal to join Sun Life Financial.

* At the time of printing of this document, the outcome of the proposed combination transaction of Clarica Life Insurance Company and Sun Life Financial Services of Canada Inc. (referred to in this document as "Sun Life Financial") was not yet finalized. This transaction will proceed only if the Transaction Resolution receives the requisite approval from shareholders, voting policyholders and required regulatory bodies, and once all other conditions of the transaction are satisfied or waived.

How did Clarica perform in 2001? Does a potential change in ownership affect your business goals?

We've provided outstanding returns for shareholders, particularly within the context of challenging economic conditions. Clarica increased return on shareholders' equity to 14.4% in 2001 and delivered earnings per share of $3.08 per common share, up 24% from $2.48 in 2000. Overall top line growth (gross premiums, deposits & equivalents) was exceptional at 14%, exceeding our 10% target. Our Canadian sales force grew by 12% in 2001, with a record number of men and women eager to join a winning franchise.

Our sights have always been set on the future. A potential change in ownership doesn't change our commitment to providing excellent returns. We remain focused on our business performance and targets. We'll meet these goals with a dedicated sales force backed by innovative products and services. We'll maintain our foundation of unquestioned financial strength; and, most importantly, we'll remain true to the core values that have made us.

Why does Clarica need a partner? Why not continue to operate independently?

Clarica has been highly successful as an independent company. It was never a 'given' to me or to the Board that Clarica had to be acquired for future success or for survival. We considered continued independence along with many other ownership options. As we looked at the future of financial services around the world, we determined the best choice for Clarica and its stakeholders was to join in partnership with a large, global organization of complementary qualities.

We were invited to discussions with Sun Life Financial precisely because of our unique capabilities and our outstanding performance. Through this specific partnership, we have the opportunity to create more than the sum of two parts. We'll create a new market leader by transforming our two companies into one Canadian champion. Clarica will be part of a rapidly growing global organization with a powerful domestic base. Clarica's U.S. operations, which added distribution power and contributed increased sales in 2001, will be a valuable addition to Sun Life Financial's thriving U.S. business.

What is your vision for the combined business?

The agreement would see Clarica become a subsidiary of Sun Life Financial, operating in Canada under the Clarica name. The combined organization would be the largest Canadian life insurance organization based on revenues, assets under administration and total assets; a market leader in group life and health insurance, group retirement services, retail insurance premiums in force, and in customer base with approximately seven million Canadian customers; and one of the leading publicly-traded North American life insurance companies based on market capitalization.

But more important than sheer size, the new organization's reach and shared knowledge will position us to outperform other insurance and wealth management companies and challenge the chartered banks in retail wealth management. We will attract and retain the best people. We will be known for innovation. And we will be known for firsts: first for the quality of our employees and sales force; first in strength of relationship with customers; and first in shareholder value creation.

You've stated in the past that bigger doesn't necessarily mean better. What makes this deal different?

In a world where the business mantra is 'go big or go home', there is still no guarantee a company will get better just by increasing its size. But when there is a fit – of cultures, of business models – increased size and scale can add to an organization's capabilities, allowing it to acquire new distribution power, reduce costs, invest in technology and provide more choice to customers. The key is to integrate cultures, processes and systems quickly, while determining how to build on the best of both.

We bring proven integration skills to this process. Our goal is to create something even better, not to slash and burn in a way that would bleed value from the business. By joining operations, Clarica and Sun Life Financial expect to achieve significant cost savings and, most importantly, add value for customers and shareholders in the process.

I believe that by joining with Sun Life Financial, we'll show that it is possible to be bigger AND better.

What about the Clarica name and brand?

Clarica has made tremendous inroads with our name and brand in Canada: by the end of December 2001, 68% of Canadians recognized the Clarica brand name, a considerable achievement in the crowded financial services marketplace in just two and a half years. Not only are consumers aware of Clarica, but they find our brand promise of clarity through dialogue highly relevant. Remarkably, 60% of those who have heard of Clarica say they'd consider Clarica for their life insurance and investment needs.

This proposed transaction includes a commitment to build on Clarica's Canadian brand equity going forward. Sun Life Financial boasts a strong global brand. Our challenge will be to link and leverage both brands successfully.

Clarica and Sun Life Financial use different sales models. Are you concerned about potential channel conflict?

We don't see a conflict, but an opportunity to create the next generation of the retail sales model, a 21st century approach that builds on our commitment to a career sales force. We speak from experience: Clarica's move to use the Internet to market and sell products was also viewed by some as a potential channel conflict. Instead, we've harnessed the power of the Internet to create a Web-enabled sales force. Our distribution alliances with Investors Group, Allstate and TD Waterhouse are also key examples of how we're using innovative channels to complement and build upon our sales model.

Clarica's career sales force is our primary touch point with Canadians. I believe it will not only continue, but thrive. With Sun Life Financial, we expect to grow, develop, and enhance our size, capabilities and market reach to better meet customer needs.

A purposeful, strategic partnership. I see joining Sun Life Financial as the next step in our journey – a journey built on shared values and realized through the full potential of our people.

Clarica is building a unique customer experience – one based on relationships, based on needs, based on clarity. By building that customer experience, we have provided rewards for investors. And we see that legacy continuing. Our commitment to promote dialogue, provide clarity and keep our promises won't change, even in light of this proposed change in ownership.

Thank you for your continued investment in Clarica.

Robert M. Astley
President and Chief Executive Officer
Letter dated January 31, 2002

What do you need?

Needs a vacation

Needs to send kids to university

Needs eye glasses

Needs to golf more

Needs a tax break

Needs to save for retirement

Needs a budget

Needs a psychic healer

Needs to exercise more

Needs to plan for another child

Needs a second car

Needs x-rays

Needs to support parents

Needs to pay off student loans

Needs diversification

Needs balance

Needs growth investments

Needs to refinance

Needs investment options

Needs orthotics

“I need to build for the future so I can live for the present”

“When I met Claire six years ago, she faced the challenge most working women face: how to balance the demands of family and career, and look after her own needs at the same time. I worked with Claire to translate her business and family needs into attainable financial goals with a clear roadmap of how to get there. That’s what I call clarity.”

LISON CHÈVREFILS (LEFT): CLARICA AGENT, MOTHER OF TWO, AUTHOR OF FIRST FRANCOPHONE BOOK IN CANADA FOR WOMEN ON MANAGING FINANCES, FEATURED ON A WEEKLY TELEVISION SHOW ON FINANCIAL PLANNING

"Being goal-oriented is second nature to me, since I run my own business. As a self-employed professional, I have to think about health care coverage, disability protection and savings for my retirement. On the personal side, I know it is equally important to plan ahead. My husband and I want to be able to live without the constraints of a budget. This is where Lison's advice has been so valuable to us. It comforts us to know we are building for retirement and protecting our family for the future."

CLAIRE DUFOUR (RIGHT): CLARICA CUSTOMER, MOTHER OF THREE, SELF-EMPLOYED HEALTH CARE PRACTITIONER

Needs a stable income

Needs a financial strategy

Needs a cottage

Needs to reduce debt

Needs the kids to move out

Needs a tutor

Needs a babysitter

Needs a DVD player

Needs a nest egg

Needs braces

Needs a financial planner

Needs a raise

Needs more life insurance

Needs less stress

Needs to build a deck

Needs early retirement

Needs to go back to school

Needs to renovate

Needs security

Needs a computer

Needs to save more

Needs a new barbecue

“I need to build a secure future for my family”

“As a police officer, I used to think security was about physical safety. But it also means the need to protect my family’s future. Lorne is helping us meet our financial goals with an education savings plan, wise investments and insurance protection. For me, clarity means sleeping at night knowing my family is secure.”

ROY FOSTER (LEFT): CLARICA CUSTOMER, RETIRED POLICE OFFICER, STAY-AT-HOME DAD TO TWO-YEAR-OLD TREVOR AND PARTNER TO LORI, WORKING MOM (NOT PICTURED)

"I began working with Roy just after his early retirement. A stay-at-home dad, Roy needed a solid financial plan to supplement his partner Lori's salary and ensure long-term security for the family. I worked with Roy and Lori to develop a clear financial plan that supports their lifestyle and provides for Trevor's future."

LORNE S. MARR (RIGHT): CLARICA AGENT, MBA, CFP, AGENT OF THE YEAR 2001, 2000, 1999

Needs a long-term financial plan

Needs disability coverage

Needs a leave of absence

Needs a bag of chips

Needs a ski trip

Needs a pension plan

Needs a chiropractor

Needs a coffee break

Needs child care

Needs estate protection

Needs to work flex hours

Needs a massage

Needs retirement planning

Needs a job

Needs a promotion

Needs to buy a home

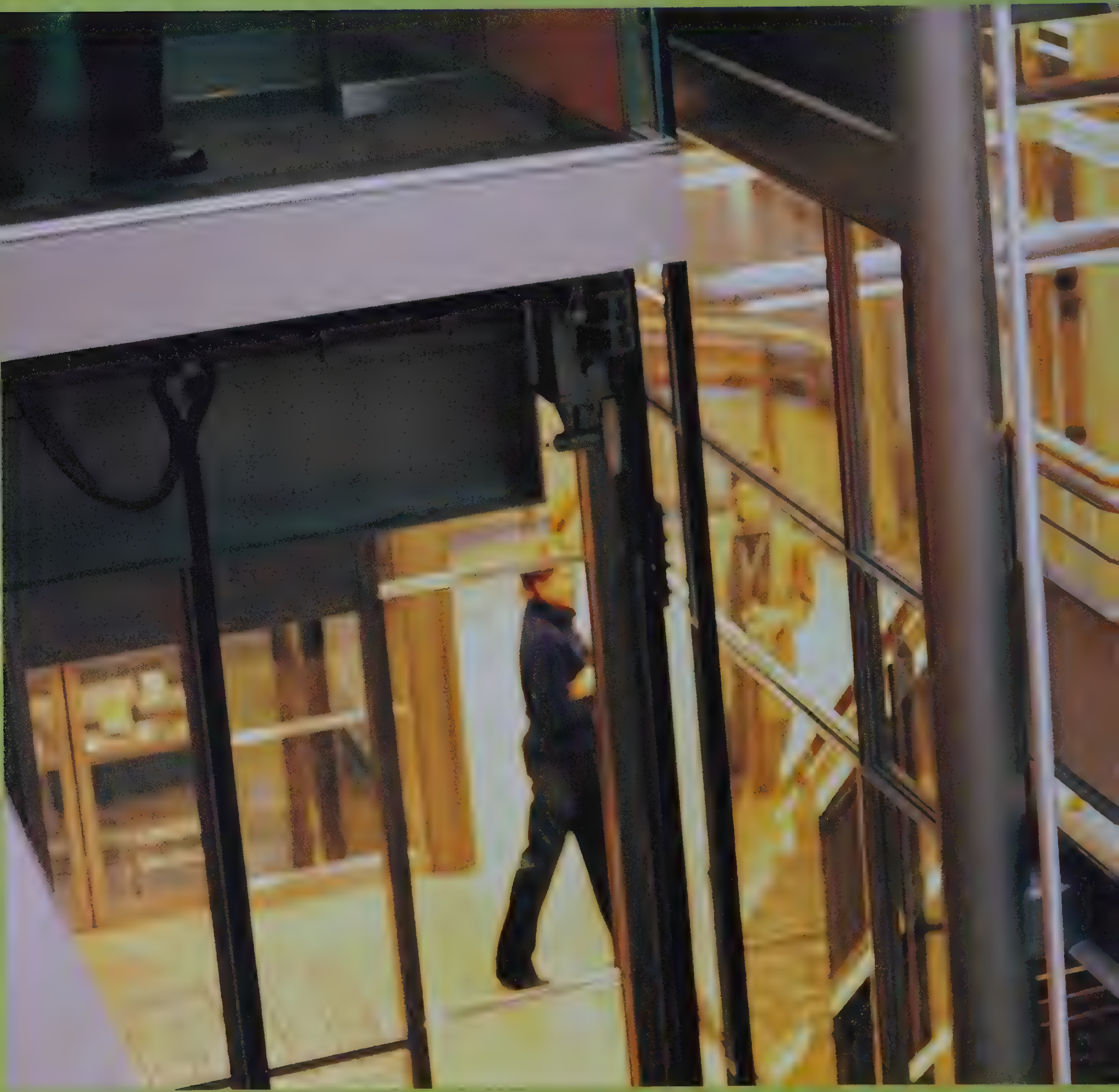
Needs a life

Needs partnership

Needs to work from home

Needs a car pool

“We need to build more partnerships like this one”



“Our dialogue with Hewlett-Packard over the years has influenced the way we do business at Clarica. As a pilot participant in our electronic claims initiative, they provided valuable input to the technology we developed that now allows Clarica customers to submit claims through the Internet.”

LESLEY BOYLE (LEFT): GROUP INSURANCE ACCOUNT EXECUTIVE, CLARICA

“I really enjoy helping plan members make informed investment choices to meet their individual retirement needs. We’re providing tools and services customized to Hewlett-Packard’s pension plan for their plan members. This brings clarity to the workplace.”

JULIE McDONALD (CENTRE): EDUCATION AND COMMUNICATION MANAGER, PENSION AND GROUP SAVINGS, CLARICA

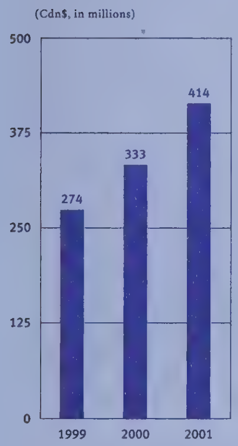
"We're looking for more than just a service provider, record keeper or administrator. For us, it's about sharing the same workplace philosophy and values. Clarica is a creative, progressive, relationship-oriented company. This partnership helps us meet our need to provide innovative tools and top-notch service to our employees."

SUSAN NIP (RIGHT): EMPLOYEE BENEFITS CONSULTANT, HEWLETT-PACKARD

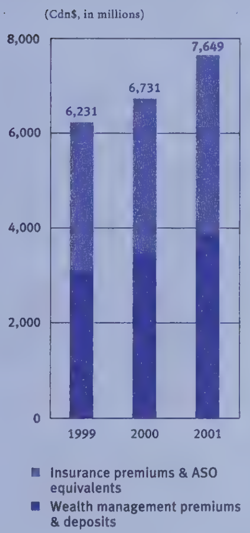
2001 Financial review

Financial highlights

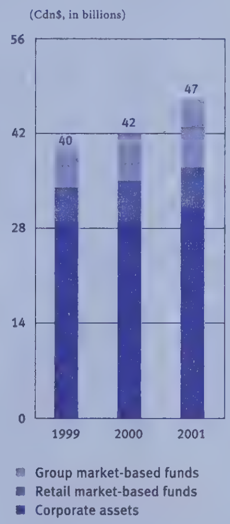
Shareholders' net income[1]



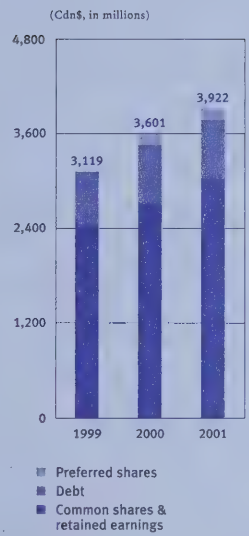
Gross premiums, deposits & equivalents[2]



Assets under administration



Capital



Business segment performance

	ROE[3]	Net income		
	2001	2001	2000	1999
Retail Insurance	14.5%	$ 99	$ 76	$ 65
Wealth Management	13.4%	82	86	76
Group Insurance	16.4%	37	26	15
U.S. Insurance & Savings	14.8%	23	16	24
Reinsurance	14.9%	37	29	9
Surplus	–	136	100	85
Net income attributable to common shareholders	14.4%	$ 414	$ 333	$ 274

MCCSR

	2001	2000	1999
Minimum Continuing Capital and Surplus Requirement	202%	201%	186%

Ratings

Rating Agency	Rating assigned
A.M. Best	A+
Dominion Bond Rating Service	1C-1
Moody's Investor Service	Aa3
Standard & Poor's	AA

1 1999 results are pro forma, reflecting the shareholder basis adopted upon demutualization July 21, 1999.

2 1999 and 2000 were restated to reflect current presentation.

3 Return on shareholders' equity for business segments is calculated based on MCCSR and includes allocated surplus income.

Management's discussion and analysis

(All references to Notes refer to the Notes to the Consolidated Financial Statements)

This section contains management's discussion of Clarica's financial condition and performance for the year ended December 31, 2001 including a comparison with the 2000 year. Certain tables include 1999 data which is pro forma information presented on a basis consistent with that adopted at demutualization on July 21, 1999. The table below outlines the structure of this management's discussion and analysis:

A. Understanding our business	An overview of the specialized accounting used in the insurance industry, including an explanation of the business structure, products and pricing and sources of earnings.
B. Financial review	A review of Clarica's overall financial performance, focusing on the *Consolidated Statement of Income.*
C. Business segment analysis	An analysis of the operations and financial results of each of our business segments.
D. Risk and capital management	A discussion of the risks inherent in the business along with Clarica's risk management framework, organizational accountabilities for risk management and a summary of Clarica's approach to capital management and key capital performance measures.
E. Sun Life Financial combination transaction	A brief discussion of Clarica's agreement to combine operations with Sun Life Financial.

A. Understanding our business

An understanding of our business is necessary for interpretation of our results. We provide the following overview of our business structure, products and pricing philosophy, and sources of earnings as support for our financial review.

A.1 Business structure

The Company operates a shareholder account and a participating ("par") account. The shareholder account includes all non-participating business, while the par account includes all participating business. Participating business means that policyholders are eligible to share in the experience gains and losses of the par account through policy dividends. Net income attributable to shareholders includes the earnings on the non-participating business plus transfers from the par account. These transfers represent profits from the participating policies (excluding most experience gains and losses), and fees earned for the management of the par account. This account structure was adopted upon demutualization July 21, 1999.

A.2 Products and pricing

A.2a Insurance products

Clarica offers retail (individual) insurance and group insurance products that provide coverage for future events over a long period of time. The uncertainty of the timing of these events and the long-term nature of these contracts makes the recognition of profit unique compared to other industries.

To determine the price of an insurance contract we employ actuarial methods that require assumptions about the following:

- the timing and amount of benefit payments,
- the timing and amount of future premiums,
- the expenses and taxes we will incur in administering the policy,
- the timing and impact of policy terminations, and
- the investment income that will accumulate on the excess of premiums received over benefit payments, expenses and taxes.

Because each product has different characteristics and risks, each product requires its own set of assumptions. The assumptions are used to calculate the future liability for each policy so we can record the actuarial liability on our balance sheet. Actuarial liabilities are set up based on our best estimate of the above assumptions and include an additional amount called a provision for adverse deviation (PfAD). The PfAD recognizes the probability that actual experience will differ from the assumptions made and is determined in accordance with generally accepted actuarial practices. The difference between the present value of all future expected profits of the policy and the present value of PfADs is recognized in income at the time of the sale. This difference is referred to as a pricing gain or loss. As time elapses, the PfADs are released as they are no longer required, creating a stream of profit recognized over the life of the contract.

Profit on group insurance products is recognized in the same manner as retail insurance products. Group insurance products, however, are generally re-priced each year at renewal, resulting in pricing that is less sensitive to assumptions than for retail insurance. Group insurance products also include fee-based products such as administrative services only (ASO).

A.2b Wealth management products

Wealth management products are offered on both a market-based and guaranteed basis. Our capabilities in both of these product lines allow us to meet shifts in consumer demand caused by changes in capital markets and the interest rate environment.

Market-based funds

Clarica administers a broad range of mutual funds and segregated funds on a fee basis and records the gross fee income on the *Consolidated Statement of Income.* The fees earned are based on a percentage of the market value of the assets administered, which is subject to market fluctuation. Market-based funds are not part of Clarica's general funds and are excluded from the *Consolidated Balance Sheet.* These assets are included in assets under administration.

Guaranteed funds

Guaranteed funds refer to any investment product with a fixed or secured rate of return. Similar to insurance products, the price and the actuarial liabilities established for these products include assumptions for:

- investment income,
- mortality,
- expenses and taxes, and
- provisions for adverse deviations (PfADs).

As with insurance products, pricing gains and losses are recognized at the time guaranteed funds are sold, and the profit is recognized over the life of the contract.

A.3 Sources of earnings

The sources of profit and loss flow through many lines on the *Consolidated Statement of Income* ("income statement") and are not easily identified. To identify sources of earnings, management uses an earnings analysis that compares expected actuarial results to actual experience. In the long run, the profit realized is the difference between the price of the product and the benefits and expenses that are paid out. Profit is recognized over the life of the contract and comes from four general sources:

a) Expected profit, fee income and surplus earnings

The PfAD is established to provide for unexpected experience changes. As time elapses, the experience becomes known and the PfAD is released into income as it is no longer required. This regular release of the PfAD over the life of the policy represents a steady income stream. The PfAD release flows through *Benefits paid & provided for* on the income statement.

Fee income represents the earnings on the administration of mutual funds, segregated funds and ASO business. Surplus earnings represent investment income earned on surplus assets (those assets not required to support future policy benefits) net of associated expenses.

b) Pricing gains and losses

When a life insurance or investment product is priced, the level of the required PfADs may be more or less than the future expected profits priced into the product. When the present value of all future expected profits at the time of the sale exceeds the present value of PfADs, a pricing gain is immediately recognized in income. The converse occurs when the present value of future expected profits at the time of the sale is less than the present value of PfADs. In this situation, a pricing loss is incurred and immediately recognized in income. This is also known as a reserve strain.

Pricing gains and losses flow through several income and expense lines on the income statement and as such are not clearly identifiable in the financial statements.

c) Experience gains and losses

An experience gain or loss is the difference between actual experience and the actuarial assumption used in establishing the actuarial liabilities. When a payment is made to a beneficiary, it is recognized in the income statement as *Benefits paid & provided for*. At the same time, the actuarial liabilities are reduced to reflect the discharge of the obligation. This reduction flows through *Benefits paid & provided for* on the income statement. The net result is the recognition in the income statement of the difference between these two amounts, which represents an experience gain or loss. Experience gains and losses may arise on all actuarial assumptions.

d) Changes in assumptions

Throughout the year the Company reviews assumptions against actual experience to ensure that they continue to reflect best estimates. Assumptions may be revised to reflect emerging trends. On non-participating policies, changes in assumptions are recognized in income immediately by adjusting the actuarial liabilities for the full present value of the change. On participating policies, these changes are reflected in policy dividends and as such do not generally have an impact on shareholders' net income. Changes in assumptions are included in *Benefits paid & provided for* on the income statement.

B. Financial review

B.1 Basis of presentation

Prior to July 21, 1999, the Company operated as a mutual company owned by its policyholders. Following demutualization in 1999, the Company began reporting net income on a shareholder basis. Pro forma information on this shareholder basis for 1999 has been provided throughout this Annual Report. The pro forma information is calculated based on actual results for the participating and non-participating blocks of business for that period. Adjustments for the required transfers between the funds have been made in accordance with the principles used subsequent to demutualization.

Selected financial information

(Cdn$, in millions, except basic earnings per common share)	Change	2001	2000	1999
Revenue				
Premiums	14 %	$ 4,015	$ 3,530	$ 3,247
Investment income	(1)%	2,052	2,079	2,091
Fees & other income	13 %	274	242	213
	8 %	6,341	5,851	5,551
Benefits & expenses				
Benefits paid & provided for	11 %	4,590	4,139	4,073
General expenses & commissions	13 %	1,149	1,015	944
	11 %	5,739	5,154	5,017
Income before taxes & goodwill charges	(14)%	602	697	534
Income taxes	(35)%	161	249	205
Goodwill charges, net of tax	(80)%	22	108	59
Net income	23 %	$ 419	$ 340	$ 270
Less:				
Undistributed participating policyholders' loss	–	(5)	–	(4)
Dividends on preferred shares	43 %	10	7	–
Net income attributable to common shareholders	24 %	$ 414	$ 333	$ 274
Basic earnings per common share	24 %	$ 3.08	$ 2.48	$ 2.04

B.2 Overview of consolidated results

Net income attributable to common shareholders ("net income") for 2001 grew 24% to $414 million, or $3.08 per common share. In comparison, 2000 net income was $333 million, or $2.48 per common share. The growth of 24% in earnings per share for the year was well ahead of our target range of 10–15%.

Return on shareholders' equity (ROE) was 14.4% for 2001, an increase from 12.9% in 2000, exceeding our stated 2001 target ROE of 13%. This 2001 achievement also surpassed our 2003 target of 14% two years ahead of schedule. The 2002 ROE target is 14.5–15.0%.

The income statement includes the results of acquired businesses from their dates of acquisition. In April 2000, the Company acquired the life retrocession and financial reinsurance business of Sun Life Financial Services of Canada Inc. In January 2001, Clarica acquired the Canadian group retirement services business of The Royal Trust Company and Royal Trust Corporation of Canada ("Royal Trust") and in October 2001, Clarica acquired an 85% interest in Ash Brokerage Corporation and its affiliate, AFH Financial Consortium, Inc. ("Ash Brokerage").

Included in *Income before taxes & goodwill charges* are charges related to the events of September 11 and Royal Trust integration costs as discussed below.

There were several significant items included in 2001 that have been outlined below to provide a clear explanation of the underlying results.

B.2a September 11 provision

The September 11 terrorist attacks on the United States resulted in a $25 million after-tax charge to Clarica's Reinsurance segment. This charge was net of catastrophe coverage, reinsurance ceded and existing reserves. Clarica's Reinsurance operations include life retrocession as well as a special risk component. Most of the claims related to the terrorist events were in the area of special risk. Special risk provides coverage for death, disability and medical claims that arise from accidents. The Company ceased accepting new special risk business in August 2001 due to the inherent volatility of this business.

B.2b Royal Trust integration costs

In January 2001, Clarica acquired the Canadian group retirement services business of Royal Trust. The transaction primarily involved defined contribution pension plans sold on a group basis. Also included are group retirement savings and profit sharing plans, as well as stock purchase and option plans. The acquisition added $3.1 billion in assets under administration, making Clarica one of the largest administrators of the group pension and savings business in Canada.

The purchase price of $49 million was financed from internal resources and we recorded $45 million in goodwill as a result of the transaction. Integration costs related to this acquisition were $28 million ($17 million after-tax), as reflected in the Wealth Management segment. The integration was successfully completed by year-end.

B.2c Tax adjustments

There were two significant tax adjustments in the year that had a positive impact on 2001 results. In the first quarter we had a benefit of $6 million following the successful completion of tax audits related to the 1997 disposal of a business unit. In the third quarter we had a gain of $17 million following a favourable court decision on an industry capital tax issue. The impact of both releases is reflected in the Surplus segment.

B.2d Gain from finalization of life retrocession acquisition

In April 2000, Clarica acquired the life retrocession and financial reinsurance business of Sun Life Financial Services of Canada Inc. The finalization of this acquisition took place in 2001 and resulted in income of $13 million for the Reinsurance segment. The sale of a block of the acquired business accounted for $8 million of this gain.

B.3 Revenue

Revenue consists of premiums, investment income, and fees & other income. Total revenue in 2001 was $6,341 million, a $490 million increase over 2000, primarily due to the increase in guaranteed premiums & deposits.

B.4 Gross premiums, deposits & equivalents[1]

(Cdn$, in millions)	Change	2001	2000	1999
Retail insurance premiums	7 %	$ 1,654	$ 1,543	$ 1,494
Group insurance premiums	3 %	895	870	872
Reinsurance premiums	26 %	503	399	140
ASO premium equivalents	11 %	717	646	600
Gross insurance premiums & ASO equivalents	9 %	$ 3,769	$ 3,458	$ 3,106
Guaranteed premiums & deposits	35 %	1,180	872	882
Retail market-based fund deposits	(24)%	979	1,296	922
Group market-based fund deposits	56 %	1,721	1,105	1,321
Wealth management premiums & deposits	19 %	$ 3,880	$ 3,273	$ 3,125
Total gross premiums, deposits & equivalents	14 %	$ 7,649	$ 6,731	$ 6,231

1 1999 and 2000 were restated to reflect current presentation.

Total gross premiums, deposits & equivalents increased $918 million in 2001 to $7,649 million. This increase represented a 14% growth over 2000 and exceeded our 10% target for the year. Gross insurance premiums & ASO equivalents were $3,769 million, up $311 million over 2000, due to several factors including increased Bank Owned Life Insurance sales in the United States; strong Universal Life sales in Canada; increased ASO premium equivalents; and a strategic shift in the Reinsurance segment from the integration of the life retrocession business in 2000 to internal growth in 2001.

Wealth management premiums & deposits increased 19% over 2000 and included an increase in group market-based fund deposits resulting from the Royal Trust acquisition earlier in the year. Weak equity markets and the apparent consumer shift away from market-based products accounted for both the decrease in retail market-based fund deposits by 24% and the increase in guaranteed premiums & deposits by 35%. In addition to the consumer shift to guaranteed products, new competitive products and new distributors with an annuity focus contributed to the increase in the U.S. business segment.

B.5 Investment income

(Cdn$, in millions)	2001	2000	1999
Gross investment income	$ 1,856	$ 1,869	$ 1,841
Amortization of realized & unrealized gains	204	240	256
Net charge to loan provision	(8)	(30)	(6)
Total investment income	$ 2,052	$ 2,079	$ 2,091

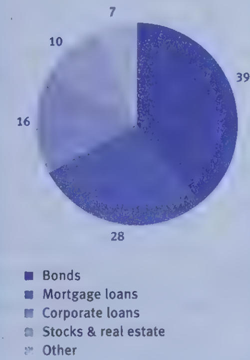
Investment income is driven by asset mix, which is based on investment guidelines, policy obligations and the overall size of the Company's actuarial liabilities. The size of the investment portfolio will change as the level of actuarial liabilities changes. The current mix of the investment portfolio reflects the large portion of actuarial liabilities that require long-term fixed returns. As a result, income earned on marketable bonds and mortgage and corporate loans continues to represent the largest source of investment income at 83% in 2001, unchanged from 2000.

Investment income represents the income earned on all invested assets, including assets that support actuarial liabilities. However, since investment income is one of the assumptions used in establishing the actuarial liabilities, it does not directly affect net income except in the Surplus business segment. Each year the change in actuarial liabilities, which is included in the income statement under *Benefits paid & provided for*, includes an expected investment income amount. The difference between actual investment income and this expected amount is recognized in net income as an experience gain or loss. The Surplus segment does not contain actuarial liabilities and therefore fluctuations in investment income earned on surplus assets directly affects net income.

The decrease in investment income to $2,052 million in 2001 from $2,079 million in 2000 was primarily due to weaker equity markets.

Investment income by asset type

(in percentages)



Credit losses (recoveries) by asset

(Cdn$, in millions)	2001	2000	1999
Marketable bonds	$ 10	$ 1	$ –
Residential mortgage loans	1	1	(2)
Non-residential mortgage loans	(1)	6	4
Corporate loans	9	10	3
Other	(11)	12	1
Total credit losses	$ 8	$ 30	$ 6

Excellent credit experience continued in 2001, reflecting our credit management capabilities and the quality of our asset base. In 2001 we sold a block of mortgages, resulting in a credit recovery of $9 million after-tax that was recorded in the general provisions of the Surplus segment.

Provisions and reserves

(Cdn$, in millions)	2001	2000	1999
Asset default provision	$ 706	$ 596	$ 587
Economic cycle adjustment	$ 107	$ 88	$ 68
General provision	$ 22	$ 40	$ 29
Specific provision	$ 58	$ 67	$ 73

Clarica's credit provisions fall into three categories: asset default provisions, general credit allowances and specific provisions.

(i) Asset default provisions are established to cover losses expected over the life of the policy obligations. Clarica's asset default provision at December 31, 2001 was $706 million ($596 million in 2000). This provision forms part of the actuarial liabilities for future policy benefits.

(ii) General credit allowances have two components:
- An economic cycle adjustment (ECA), which is used to cover volatility in credit experience. The ECA allows for the true long-term cost of credit losses to be recognized in the Company's results. The ECA is part of the asset default provision included in actuarial liabilities for future policy benefits. As at December 31, 2001 the ECA was $107 million ($88 million in 2000).
- General provisions for expected future losses on current surplus assets. This amounted to $22 million at December 31, 2001 ($40 million in 2000) and the decline reflects a change in the provision in 2001 related to the sale of a block of mortgages.

(iii) Specific provisions represent amounts established to cover the losses on known impaired loans. Clarica's total specific provision at December 31, 2001 was $58 million ($67 million in 2000). The reduction in specific provisions primarily reflects the sale of a block of mortgages in 2001.

B.5a Impaired loans

The overall credit quality of Clarica's portfolio remains high with an impaired loans ratio of 0.4% at December 31, 2001 compared with 0.2% at the end of 2000. The impaired loans ratio is a common metric for measuring the strength of a financial institution's fixed income portfolio. This ratio measures the net carrying value of the impaired loans against the value of the related asset portfolio.

B.6 Fees & other income

The principal components of fees & other income are fees earned on the administration of retail market-based funds, group market-based funds and ASO contracts. In 2001, fees & other income grew 13% to $274 million compared with $242 million in 2000. Wealth management fees increased in 2001 primarily due to the Royal Trust acquisition, which added $1.8 billion in group market-based fund assets and $1.3 billion in share purchase plans. Price increases in 2001 resulted in increases to fees earned on ASO contracts.

B.7 Benefits paid & provided for

(Cdn$, in millions)	Change	2001	2000	1999
Life insurance benefits & surrenders	10 %	$ 1,720	$ 1,564	$ 1,358
Annuity payments & maturities	17 %	1,727	1,479	1,588
Health insurance benefits	13 %	657	583	628
Policyholder experience dividends	(6)%	418	444	422
Interest on amounts on deposit	(1)%	68	69	77
Total benefits paid & provided for	11 %	$ 4,590	$ 4,139	$ 4,073

Benefits paid & provided for includes benefits paid to policyholders and beneficiaries as well as the changes in actuarial liabilities for the year. When a payment is made to a policyholder or beneficiary, the actuarial liability is reduced and flows through the changes in actuarial liabilities for the year. The net impact of the payment and the change in actuarial liabilities is the recognition of experience gains and losses. Other changes in the liability, which are also included in *Benefits paid & provided for*, are the establishment of new liabilities and changes in actuarial methods and assumptions. The increase in *Benefits paid & provided for* to $4,590 million in 2001 from $4,139 million in 2000 is primarily due to the establishment of new liabilities resulting from business growth.

B.8 Expenses

(Cdn$, in millions)	Change	2001	2000	1999
Operating expenses	16%	$ 740	$ 636	$ 609
Interest on subordinated debt	21%	47	39	44
General expenses	17%	787	675	653
Commissions	6%	362	340	291
Total general expenses & commissions	13%	$ 1,149	$ 1,015	$ 944

		2001	2000	1999
Operating expenses as a % of gross premiums, deposits & equivalents		9.7%	9.4%	9.8%
Commissions as a % of gross premiums, deposits & equivalents		4.7%	5.1%	4.7%

Operating expenses increased 16% to $740 million in 2001 largely due to increased operating costs related to business growth and ongoing spending on strategic initiatives such as e-business. In addition to the increase associated with business growth, operating expenses included integration costs of $28 million ($17 million after-tax) related to the Royal Trust acquisition. Interest on subordinated debt increased $8 million over last year to $47 million due to the issue of $300 million of subordinated debt in October 2000. Commission expense in 2001 was up 6% over 2000. Strong sales in both the U.S. Insurance & Savings and Retail Insurance segments contributed to this increase.

B.9 Taxes

Summary of taxes

(Cdn$, in millions)	2001	2000	1999
Effective income tax rate	27.7%	42.2%	43.1%
Income taxes	$ 161	$ 249	$ 205
Other taxes			
Premium taxes	$ 47	$ 43	$ 41
Investment income taxes	18	20	22
Property taxes	29	27	29
Payroll taxes	19	17	17
Goods & services tax and sales tax	18	19	21
Business and other taxes	5	4	5
	$ 136	$ 130	$ 135
Total income & other taxes	$ 297	$ 379	$ 340

Income taxes have decreased by 35% compared with 2000 primarily due to the reduction in the effective tax rate from 42.2% to 27.7%. The statutory tax rate has decreased to 41% from 42.5% in 2000 from both federal and provincial corporate tax rate reductions. Note 17 provides a reconciliation of the statutory tax rate to the effective tax rate. The largest factor contributing to the 2001 income tax reduction was $23 million in tax adjustments arising from a favourable court decision regarding an industry capital tax issue; the successful completion of tax audits; and an increase in foreign income earned, which is taxed at lower rates.

B.10 Goodwill charges

Goodwill charges for 2001 were $22 million compared with $108 million in 2000. Included in 2000 is a goodwill charge of $67 million related to the transfer of two blocks of business acquired from The Metropolitan Life Insurance Company of Canada ("MetCan") as explained in Note 21.

Amortization of goodwill for 2001 decreased to $22 million from $41 million in 2000. By the second quarter of 2000, $70 million of accelerated MetCan goodwill was fully amortized accounting for the decreased amortization in 2001.

A new accounting standard for goodwill and other intangible assets has been issued and is effective for year-ends beginning on or after January 1, 2002. This new standard discontinues the amortization of goodwill and intangible assets with indefinite useful lives. The new standard also introduces an annual impairment test of goodwill and indefinite life intangible assets. The estimated impact of these changes to Clarica's net income will equal current goodwill amortization of approximately $20 million per year.

C. Business segment analysis

Clarica's operations are divided into business segments based on geographic location and on the products and services provided (see Note 22). The Surplus segment represents corporate operations, including the management of the surplus portfolio.

The overall growth in shareholders' net income of 24% was driven by strong growth in most lines of business. Excluding the significant items discussed earlier that were largely offsetting, the growth in earnings is a result of increased business volumes and assets both from acquisitions and internal growth. Favourable mortality and morbidity experience and increased pricing gains also contributed to the year-over-year growth.

Net income by business segment

(Cdn$, in millions)	2001		2000		1999 (pro forma)	
Canada						
Retail Insurance	$ 99	24%	$ 76	23%	$ 65	24%
Wealth Management	82	20%	86	25%	76	28%
Group Insurance	37	9%	26	8%	15	5%
	$ 218	53%	$ 188	56%	$ 156	57%
United States						
Insurance & Savings	23	5%	16	5%	24	9%
Reinsurance	37	9%	29	9%	9	3%
	$ 60	14%	$ 45	14%	$ 33	12%
Surplus	136	33%	100	30%	85	31%
Net income attributable to common shareholders	$ 414	100%	$ 333	100%	$ 274	100%

The insurance industry typically uses an earnings analysis in order to interpret financial results. This analysis compares the actual experience for a business segment to the actuarial assumptions used in the pricing and valuation of those products. As a result, it explains the sources of earnings better than a traditional analysis of the income statement. The earnings analysis for 2001 and 2000, by business segment, are provided in the following tables.

Earnings analysis

	Canada			United States			
2001 (Cdn$, in millions)	Retail Insurance	Wealth Management	Group Insurance	Insurance & Savings	Reinsurance	Surplus	Total
Expected profit, fee income & surplus earnings	$ 58	$ 51	$ 20	$ 19	$ 44	$ 136	$ 328
Pricing gains	21	26	10	–	8	–	65
Experience gains (losses)	23	(1)	7	(3)	(20)	–	6
Change in assumptions	(3)	6	–	7	5	–	15
Net income attributable to common shareholders	$ 99	$ 82	$ 37	$ 23	$ 37	$ 136	$ 414

2000 (Cdn$, in millions)	Retail Insurance	Wealth Management	Group Insurance	Insurance & Savings	Reinsurance	Surplus	Total
Expected profit, fee income & surplus earnings	$ 52	$ 48	$ 18	$ 18	$ 24	$ 100	$ 260
Pricing gains (losses)	18	22	9	(2)	–	–	47
Experience gains (losses)	4	11	2	(7)	6	–	16
Change in assumptions	2	5	(3)	7	(1)	–	10
Net income attributable to common shareholders	$ 76	$ 86	$ 26	$ 16	$ 29	$ 100	$ 333

C.1 Canadian operations

C.1a Distribution channels

Clarica offers a wide range of life and health insurance and savings and investment products to retail and group customers through various distribution channels. Our product portfolio and distribution channels are outlined on the inside cover of this Annual Report.

Retail distribution

Our exclusive sales force enjoyed a year of extraordinary growth. Our agents, managers and specialists totalled 3,497 at year-end, an increase in distribution capacity of 12%. Our exclusive agents position Clarica to deliver on our brand promise of clarity through dialogue. The sales force plays a pivotal role in managing relationships and meeting customer needs through insurance and wealth needs analysis, specialized advice, competitive products, and superior customer service, as well as Internet-based and other technologies. Throughout 2001 our focus was to grow the size and productivity of our retail sales force through selective recruitment, investment in training and technology and management development.

To align the interests of the Company, the agent and the policyholder, Clarica uses a level commission structure. This system rewards agents for selling to new customers while retaining and servicing existing customers. In January 2001, the Company revised the agent's contract to better balance the rewards for selling products and retaining customers. The new contract places greater emphasis on new sales and has increased both recruitment and sales productivity.

Agent productivity on retail insurance, as measured by average new annual retail insurance premiums, continued to improve, increasing 16% over 2000. Agent productivity on retail wealth accumulation was down 29% from last year primarily due to weak equity markets. Agent productivity is enhanced through ongoing training; product, marketing and administration support; and technology.

Sales force

	2001	2000	1999
Managers	301	250	213
Agents	2,950	2,749	2,722
Associate agents & product specialists	246	110	65
Total exclusive sales force	3,497	3,109	3,000
Four year retention rate[1]	31%	31%	30%
Average new annual retail insurance premiums (in thousands) per agent[2]	$ 34.6	$ 29.9	$ 28.7
Average retail wealth accumulation gross sales per agent (in thousands)	$ 495	$ 700	$ 560

1 29% in 2001 (26% in 2000, 24% in 1999) after including former MetCan agents.

2 Includes retail life and critical illness insurance.

We have extended our retail distribution capabilities through successful expansion of our exclusive sales force along with the use of Internet recruiting and distribution alliances. Customers may now buy certain products through the Internet directly or on referral from an agent. Agents receive a partial to full commission for these referrals depending on the product.

Distribution agreements include our exclusive agreement with Allstate Insurance Company of Canada ("Allstate") that allows Allstate's agents to sell Clarica's insurance and retail wealth products. In 2001, we broadened this agreement to allow Allstate agents access to Clarica's mutual funds. Clarica also has a marketing agreement with TD Waterhouse that permits Clarica and its agents to refer customers to TD Waterhouse to buy and sell stocks and bonds. In January 2001, Clarica announced an agreement that allows Investors Group's national network of approximately 3,500 consultants access to our Long Term Care insurance products through Clarica's health insurance specialists. This agreement more than doubled existing distribution networks for the product.

Group distribution

Clarica's group insurance and pension and group savings products are sold through employee benefit consultants, brokers and Clarica agents. These professionals work with the Company's sales team to develop innovative benefit and savings programs that meet each customer's needs. To support the service needs of its group customers, the Company has established interactive Web sites for plan sponsors and plan members, as well as call centres for both group insurance and pension and group savings plans. The Company's member Web site – Customer Access – allows members to view their entire portfolio with Clarica, including group and retail products. Many new capabilities were added to Clarica's Web sites in 2001 including e-claims and online enrolment, as well as withdrawal and benefit management capabilities for pension and group savings sponsors.

C.1b Retail Insurance

Products

Clarica's principal retail insurance products are Universal Life, Term Life, Permanent Life and Health. Historically, retail life insurance products were sold on a participating basis, with permanent life insurance being the largest component. However, since demutualizing in 1999 we have focused on shifting the product portfolio from a participating basis to a non-participating basis priced to achieve a return on equity of 15% or more. In 2001, 88% of retail insurance sales were from non-participating products.

Retail sales by product

(Based on new annual retail insurance premiums)	2001	2000	1999
Non-participating products			
Universal Life	46%	40%	29%
Term Life	19%	31%	7%
Health	14%	7%	6%
Permanent	9%	3%	–
	88%	81%	42%
Participating products	12%	19%	58%
	100%	100%	100%

Clarica is committed to structuring its products to meet the wide-ranging needs of our diverse customer base. The Company is well-positioned for future growth with the increased sales force, increased insurance productivity and the introduction of new products including Executive Universal Life.

Retail health insurance is a growing market and Clarica offers all three health products – Critical Illness, Personal Health and Long Term Care. We strengthened our leadership position in critical illness insurance in 2001 by introducing a new online service allowing Canadian customers to purchase basic Critical Illness Term insurance through the Internet.

Principal markets

Clarica has a diverse base of over 1.5 million retail insurance customers across Canada. Based on premium income, 41% of our retail insurance customer base is in Ontario and 26% is in Quebec. Our remaining customer base is spread over the Prairie provinces (13%), British Columbia (12%) and the Atlantic provinces (8%).

Competitive conditions

The Canadian retail life insurance market is highly competitive and mature. In addition to traditional life insurance competitors, Canadian banks have created or acquired life insurance subsidiaries to compete in this market.

Based on premium income, Clarica is the second largest provider of retail insurance among Canadian life insurers with a market share of 15%.

Financial performance
Earnings analysis

(Cdn$, in millions)	2001	2000	1999
Expected profit & fee income	$ 58	$ 52	$ 45
Pricing gains	21	18	5
Experience gains	23	4	9
Change in assumptions	(3)	2	6
Net income attributable to common shareholders	$ 99	$ 76	$ 65

Retail insurance net income growth was primarily due to favourable mortality experience and increased pricing gains. These gains were partially reduced by increased expenses due to growth in business volumes, costs associated with the increased sales force and losses associated with changes in assumptions. Net income in this segment grew 30% in 2001 to $99 million from $76 million in 2000. Return on equity for the retail segment was 14.5% overall, consisting of 20.5% for non-participating business and 12.5% for participating business.

Key indicators

(Cdn$, in millions)	2001	2000	1999
Sales (annualized gross premiums)			
Participating	$ 12	$ 16	$ 47
Non-participating	91	68	34
	$ 103	$ 84	$ 81
Policy termination rate:			
Clarica	6.1%	5.9%	5.2%
Industry	not available	9.5%	7.5%

Sales for the retail segment grew 23% to $103 million in 2001 from $84 million in 2000 primarily due to strong universal life and health insurance sales. Our exclusive sales force and innovative products continued to be key competitive advantages. Our policy termination rate of 6.1% remains below the industry average, which we attribute to our high level of customer service and unique compensation system that aligns customer service with agent remuneration.

C.1c Wealth Management

Products

The Canadian Wealth Management segment focuses on meeting customers' financial needs by offering a wide range of asset accumulation and retirement income products and services that are distributed through retail and group distribution channels. Responding to our customers' desire for greater choice, Clarica has entered into distribution agreements with leading name-brand investment fund managers for market-based funds. In 2001, we added numerous retail market-based funds and additional fund managers to our portfolio, creating even more choice for our customers and the opportunity for enhanced portfolio performance. The Company also offers a wide range of fixed rate guaranteed products including annuities and GICs.

Canadian guaranteed investments have benefited from the customer preference shift away from market-based products. Clarica's ability to handle this shift from both a product and operational perspective is a key competitive advantage in the current market environment.

Clarica's leading technology is also a competitive advantage. In 2001, we became the first company to offer paperless enrolment for pension and group savings plan sponsors and their employees.

Principal markets

Clarica markets its retail wealth accumulation products to individuals across Canada. The Company has approximately 455,000 retail wealth customers.

Group pension and group Registered Retirement Savings Plan (RRSP) products are marketed to a diverse range of Canadian employers and their respective employees. The Company has approximately 6,650 plans representing an estimated 672,000 employees.

Competitive conditions

The retail wealth accumulation market is highly fragmented and competitive. Banks, mutual fund companies, other life insurers, brokers and financial planners are the major sources of competition in this market with the five top competitors holding 49% of all Canadian mutual fund assets under administration as at December 31, 2001.

The pension and group savings market is also competitive but not as highly fragmented as the retail wealth accumulation market. The main competitors in this market are other life insurance companies, banks and trust companies, mutual fund companies and investment counsellors. Clarica is currently ranked second in pension and group savings, representing a 16% market share based on assets under administration.

Financial performance

Net income breakdown

(Cdn$, in millions)	Change	2001	2000	1999
Retail wealth accumulation	16 %	$ 78	$ 67	$ 58
Pension and group savings	(79)%	4	19	18
Net income attributable to common shareholders	(5)%	$ 82	$ 86	$ 76

Earnings analysis

(Cdn$, in millions)	2001	2000	1999
Expected profit & fee income	$ 51	$ 48	$ 42
Pricing gains	26	22	18
Experience gains (losses)	(1)	11	11
Change in assumptions	6	5	5
Net income attributable to common shareholders	$ 82	$ 86	$ 76

Wealth Management net income in 2001 includes integration costs of $17 million ("after-tax") related to the Royal Trust acquisition, which are included in pension and group savings. Excluding these costs, net income for the segment was $99 million, a 15% increase over 2000 primarily due to favourable mortality experience on payout annuities and increased pricing gains. Equity markets were weak in 2001, resulting in minimal earnings growth from market-based products. The Royal Trust acquisition provides opportunities for growth by cross selling into the acquired block as well as using the new capabilities acquired through the acquisition to attract new sponsors. Wealth Management strategies focus on leveraging existing customer relationships, providing greater product choice and enhancing service through technology.

Key indicators

(Cdn$, in millions)	2001	2000	1999
Premiums, deposits & equivalents			
Retail guaranteed premiums & deposits	$ 394	$ 469	$ 493
Retail market-based fund deposits	979	1,296	922
Group guaranteed premiums & deposits	275	292	297
Group market-based fund deposits	1,399	1,105	1,321
Share purchase plans	322	–	–
Premiums, deposits & equivalents	$ 3,369	$ 3,162	$ 3,033
Assets under administration			
Retail guaranteed in force	$ 8,737	$ 8,924	$ 9,378
Group guaranteed in force	1,326	1,184	1,397
Retail market-based funds	5,663	5,705	5,255
Group market-based funds	8,167	6,792	6,286
Share purchase plans	1,583	131	119
Assets under administration	$ 25,476	$ 22,736	$ 22,435

Total premiums, deposits & equivalents for the Canadian Wealth Management segment grew 7% to $3,369 in 2001 from $3,162 in 2000. The January 2001 acquisition of the Canadian group retirement services business of Royal Trust significantly increased group market-based fund deposits this year. Partially offsetting these increases was the impact of the weak equity markets and a weak RRSP season. Return on equity was 13.4%. Excluding Royal Trust integration costs ROE was 15.2%, an increase from 13.8% in 2000.

Changes in market-based fund assets

(Cdn$, in millions)	2001	2000	1999
Retail market-based funds:			
Assets, beginning of year	$ 5,705	$ 5,255	$ 4,637
Sales	979	1,296	922
Internal transfers	(16)	80	95
Market appreciation (depreciation) net of expenses	(323)	(113)	501
Redemptions	(682)	(813)	(900)
Assets, end of year	$ 5,663	$ 5,705	$ 5,255
Group market-based funds:			
Assets, beginning of year	$ 6,792	$ 6,286	$ 5,008
Sales	1,399	1,105	1,321
Internal transfers	(78)	(3)	–
Market appreciation (depreciation) net of expenses	(773)	368	672
Acquisition of Royal Trust	1,838	–	–
Redemptions	(1,011)	(964)	(715)
Assets, end of year	$ 8,167	$ 6,792	$ 6,286

C.1d Group Insurance

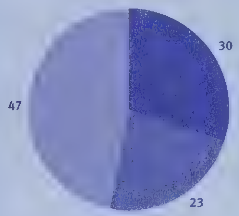
Products

Clarica offers a broad range of group insurance products on a pooled, refund accounting and administrative services only (ASO) basis. The volume of business through ASO contracts has increased in recent years, and currently accounts for 45% of our group business based on 2001 premiums and premium equivalents. While health benefits other than long-term disability benefits make up the majority of Group Insurance premiums, long-term disability and group life insurance continue to be the most significant contributors to the profitability of this business segment.

Clarica introduced several new e-business solutions in 2001, highlighting our commitment to improving customer service through innovation and partnerships. Starting in 2001, customers were able to process health and dental claims over the Internet; plan sponsors can use the Internet to self-administer their benefit plans; and employee benefit advisors can quickly and effectively obtain group insurance quotes for small business clients over the Internet. Specifically, in March 2001 Clarica and BCE Emergis announced the creation of a unique, integrated health and dental claims exchange that will offer complete claims processing of benefits on the Internet. Also in March, Clarica selected Connect Insure™ to enable employee benefit advisors to quickly and effectively obtain group insurance quotes for small business clients.

Group Insurance premiums by product

(in percentages)



Principal markets

Clarica offers products to all sizes of groups in three main segments as described in the table below:

Segment	Product offering	% of business[1]
Small groups (< 36 lives)	Standard package with a few options	3%
Mid-size groups (36 – 3,000 lives)	Extensive menu of options	32%
Large groups (> 3,000 lives)	Customized solutions	65%

1 Based on 2001 premiums & premium equivalents.

Competitive conditions

The group insurance market is highly concentrated with five large insurance companies holding a combined market share of 59%. Based on insurance premiums and ASO premium equivalents, Clarica ranks fourth in the Canadian group insurance industry with a market share of 9%.

While the industry has remained very competitive, the pricing environment has improved over the past several years. Clarica has moved toward industry leading expense levels as a result of the improvements in the pricing structure combined with ongoing cost reductions.

Financial performance
Earnings analysis

(Cdn$, in millions)	2001	2000	1999
Expected profit & fee income	$ 20	$ 18	$ 16
Pricing gains	10	9	9
Experience gains (losses)	7	2	(13)
Change in assumptions	–	(3)	3
Net income attributable to common shareholders	**$ 37**	**$ 26**	**$ 15**

Group Insurance showed another strong year of improved profitability with 2001 net income climbing to $37 million, a 42% increase over 2000. Group Insurance continued to benefit from price increases and expense reductions initiated in prior years. Favourable morbidity experience also contributed to the increases in 2001. Return on equity for the year was 16.4%, up significantly from 12.1% in 2000.

Key indicators

(Cdn$, in millions)	Change	2001	2000	1999
Gross premiums, deposits & equivalents:				
Premiums	3%	$ 895	$ 870	$ 872
ASO premium equivalents	11%	717	646	600
Gross premiums, deposits & equivalents	**6%**	**$ 1,612**	**$ 1,516**	**$ 1,472**
Sales:				
New annualized premiums & ASO premium equivalents		$ 126	$ 57	$ 33
Incurred claims ratio[1]:				
Life insurance		82.3%	79.9%	83.2%
Long-term disability benefits		71.0%	77.9%	85.4%
Other health benefits		81.8%	83.7%	91.2%
Total incurred claims ratio		**79.4%**	**81.3%**	**87.7%**

1 1999 and 2000 were restated to reflect current presentation.

Total gross premiums, deposits & equivalents for the Group Insurance segment increased 6% in 2001 to $1,612 million primarily due to increased ASO premium equivalents resulting from price increases and business growth in 2001. Future growth through partnerships with sponsors will be enhanced by the technology advances discussed earlier. These advances provide value-added, cost-effective services that help to attract sponsors.

The total incurred claims ratio improved to 79.4% in 2001 from 81.3% in 2000. Claims ratios have improved across most product lines because of the continued price increases.

C.2 U.S. operations

C.2a Distribution channels

The U.S. Insurance & Savings segment markets its core universal life and annuity products through independent marketing companies. It also markets Bank Owned Life Insurance (BOLI) through specialized independent marketing companies working in this market. In 2001 we significantly increased the number of core distributors from 22 to 45 and we increased our BOLI distributors from one to four. The Company generates its life retrocession business through direct relationships with life reinsurers.

C.2b U.S. Insurance & Savings

Products

The primary product line of the U.S. Insurance & Savings operations is universal life insurance, which accounts for approximately 75% of life insurance policies in force. Single premium BOLI products have been key contributors to sales growth in recent years, and currently account for the majority of first year life insurance premiums. This segment also offers a range of annuity products ranging from traditional guaranteed annuities to products that are linked to stock market returns.

Principal markets

Our principal markets are those served by our independent marketing companies, as well as those reached through our BOLI distributors. We design products and services for the needs and wants of a market ranging from the highly specialized markets (such as BOLI) to the more sophisticated individual markets in the United States.

We develop niche markets by identifying these markets, creating differentiated products and recruiting the appropriate distributors. Attractive niche markets are those that are too small for major insurance competitors, but require a company with financial strength, speed of execution, product development skills and technology. All of these elements are used to earn market share.

Our acquisition of an 85% interest in Ash Brokerage Corporation and its affiliate, AFH Financial Consortium, Inc., will allow our U.S. division to focus on its strategy of targeted growth in niche markets and will continue to add to our distribution power and market knowledge.

Competitive conditions

The United States market is large and competitive with nearly 1,500 life insurance companies controlled by approximately 300 ownership groups. Clarica competes in relatively small pockets of the total market against a somewhat limited universe of other companies offering similar products through independent marketing companies. Competition is strong both in product innovation and for distribution points.

Financial performance

Earnings analysis

(Cdn$, in millions)	2001	2000	1999
Expected profit & fee income	$ 19	$ 18	$ 17
Pricing gains (losses)	–	(2)	(1)
Experience gains (losses)	(3)	(7)	6
Change in assumptions	7	7	2
Net income attributable to common shareholders	$ 23	$ 16	$ 24

Net income from the U.S. Insurance & Savings segment was $23 million for 2001, up 44% from $16 million in 2000. Positive contributions from new business written and the newly acquired Ash Brokerage were partially offset by poor mortality experience.

Key indicators

(Cdn$, in millions)	2001	2000	1999
Sales:			
Life insurance premiums	$ 203	$ 119	$ 111
Annuity premiums	$ 511	$ 111	$ 88
Policy termination rate:			
Clarica	4.6%	6.4%	5.6%
Industry	not available	6.7%	7.6%

Sales of life insurance premiums grew 71% to $203 million from $119 million in 2000. Sales of annuity premiums increased by $400 million to $511 million. Life insurance premiums grew as a result of new products and expanded distribution in the BOLI line, as well as increased sales and persistency on other life products. Annuity sales growth resulted from the launch of new, more competitive products, which led to successful efforts in recruiting distributors, many of whom are focused on annuities. The consumer shift to guaranteed products due to weak equity markets, also contributed to the increase in annuity sales in 2001.

C.2c Reinsurance

Products

The Company provides customized reinsurance solutions and financial reinsurance to life reinsurers. The life retrocession market, with an emphasis on mortality risk, is an area of expertise for Clarica.

Clarica has a small market share in the special risk area that includes claims arising from accidents. The Company ceased accepting new special risk business in August 2001 due to the inherent volatility of the special risk business.

Principal markets

The Reinsurance operation's primary focus is the life retrocession business in North America. The Company's life retrocession customers are currently all North American life reinsurers and we have started to expand into Europe with the creation of our Ireland subsidiary.

In financial reinsurance, the Company provides surplus relief to U.S. insurance and reinsurance companies and has recently expanded this service into Europe as well.

Competitive conditions

The retrocession market is dominated by Clarica and a few large companies, with the three largest holding approximately 84% market share, in aggregate. Based on life retrocession in force, Clarica is the market leader.

Financial performance

Earnings analysis

(Cdn$, in millions)	2001	2000	1999
Expected profit & fee income	$ 44	$ 24	$ 6
Pricing gains	8	–	–
Experience gains (losses)	(20)	6	3
Change in assumptions	5	(1)	–
Net income attributable to common shareholders	$ 37	$ 29	$ 9

The Reinsurance segment had a $25 million after-tax charge in 2001, related to September 11. This charge was net of catastrophe coverage, reinsurance ceded and existing reserves and is expected to be sufficient to cover all anticipated claims. Partially offsetting this charge was $13 million related to the finalization of the life retrocession acquisition in 2000 and the sale of a block of the acquired business.

Excluding these two items, net income for the Reinsurance segment was $49 million, a 69% increase over 2000. These results reflect a full year's worth of earnings from the life retrocession acquisition in April 2000, combined with internal growth. Return on equity was 14.9% compared with 14.7% in 2000.

Key indicators

(Cdn$, in millions)	2001	2000	1999
Life retrocession premiums	$ 360	$ 330	$ 90
Special risk premiums	63	53	50
Total premiums	$ 423	$ 383	$ 140

The life retrocession premiums in 2000 include only nine months of Sun Life Financial's life retrocession business and accounts for the increase in premiums in 2001.

C.3 Surplus

The Surplus segment represents corporate operations, including the management of the surplus investment portfolio for Canada and the U.S.

Financial performance
Source of earnings

(Cdn$, in millions)	2001	2000	1999
Revenue	$ 294	$ 261	$ 261
Expenses	137	103	123
Income taxes	11	49	51
Goodwill charges, net of tax	–	2	2
Dividends on preferred shares	10	7	–
Net income attributable to common shareholders	$ 136	$ 100	$ 85

Net income for the Surplus segment was $136 million for 2001, up 36% from 2000. Included in net income was a $23 million gain on tax adjustments as discussed earlier.

Investment income in this segment of $294 million was up 13% over 2000. The positive impact of a larger invested asset base and credit recoveries on the sale of a block of mortgages were partially offset by reduced amortization on equity gains and increased expenses.

Expenses increased 33% to $137 million in 2001 due to increased investment activities and strategic spending.

D. Risk and capital management

D.1 Risk management

D.1a Objectives

The objectives of risk management at Clarica are to:

- protect the Company against events which could cause significant financial loss,
- improve business performance,
- help management grow business units with the highest risk-adjusted return, and
- enhance shareholder value.

D.1b Risk management framework

Clarica seeks to achieve the appropriate balance between risk mitigation and return maximization through a series of defined principles. The vision for risk management is to take informed risks that will provide the appropriate return to the Company. As risk can never be eliminated, there must be an understanding of all aspects of the risks that are taken. Clarica takes a disciplined approach to evaluating the risks of new and existing activities across the organization to ensure that risk management is a cornerstone of the Company's business model. The underlying principles of our risk management framework are:

- a desired risk profile with income targets on risk-based capital,
- a culture that helps to make the choices on risk/return explicit, and
- organizational accountabilities.

Key areas of focus

Risk policies

Policies and limits are established to ensure business activities are guided by the Company's overall risk/return targets. They provide guidance for risk/return management and establish incentives for optimal risk/return behaviour.

Pricing policies

Corporate pricing principles and philosophies have been established to ensure a minimum required return is realized by product group after considering the risk capital employed.

These standards for pricing principles and philosophies apply to the pricing of new business and the re-pricing of existing business.

Investment policies

Investment policies enable us to preserve the quality and diversity of our asset portfolio. We employ prudent investment strategies and lending practices including:

- asset mix objectives by business segment,
- rigorous monitoring and managing of credit and market risk,
- concentration limits according to characteristics such as geography, industry and borrower,
- specific approval authorities by asset and transaction type, and
- specific policies and procedures regarding the use of derivatives.

Organizational accountabilities

The Board of Directors has overall responsibility for risk management. Through the Audit Committee and the Investment Committee, the Board oversees Clarica's activities that result in risk exposures. Several management committees, departments and individual roles are in place to direct and approve all significant risk exposure resulting from daily business activities and new strategies. The mandates of these groups, as they relate to risk management, are included below:

BOARD OF DIRECTORS	
Audit Committee of the Board of Directors	• Oversees the Company's accounting, auditing and reporting processes • Reviews internal control and audit plans and procedures • Reviews risk management plans
Investment Committee of the Board of Directors	• Monitors broad risk factors which significantly impact the Corporate Investment Policy • Monitors adherence to investment and lending policies, standards and procedures that are applied to the portfolio of investments and loans
MANAGEMENT	
Executive Committee	• Determines and develops overall Corporate strategic direction • Decides on key issues pertaining to the implementation of strategy • Manages overall business and organizational risks
Executive Investment Committee	• Focuses closely on higher level strategic and portfolio management issues • Approves significant individual transactions • Focuses on credit and market risks
Appointed Actuary	• Provides overall leadership and direction for risk management • Establishes an integrated risk management framework • Develops the analytical, systems and data management capabilities to support the risk management program • Manages insurance risks
Management Investment Committee	• Provides overall day-to-day governance for the enterprise-wide investment operations • Authorizes investment transactions
Corporate Risk Management	• Enables a culture of informed decision-making and optimal risk-taking • Measures and monitors the risk/return relationships
Corporate Audit Services	• Independently assesses and reports on organizational and operational risks
Investment Risk Office	• Ensures risk management techniques are standardized and focused on total balance sheet optimization • Has accountability for the management of credit and market risk

The risk management functions throughout Clarica are carried out at a business unit level as well as at a corporate level. At the business unit level, risk management focuses on understanding and mitigating risk through a variety of means: product design, sensitivity analysis, experience studies, prudent lending criteria, hedging programs and the maintenance and development of appropriate risk policies and procedures. Responsibility for risk management at the business unit level lies with the business segment and with asset managers. At the corporate level, risk management takes a broader view, focusing on policies and the interactions between the risks facing Clarica.

Types of risk

Risk management encompasses all risks to which the Company is exposed. We summarize risk into six categories – credit, market, insurance, business, operational and organizational. The six risk categories and how we manage them are described below.

i) Credit risk

Credit risk is the risk that Clarica will not receive payment for amounts we are owed. Specific credit risks include the risk that a borrower will be unable to meet its financial obligations and the risk of default by a bond issuer. For an additional discussion on credit risk, see Note 9.

We manage credit risk through prudent credit policies and diversification of our asset portfolio. Diversification of the asset portfolio takes place on several levels, as described in the following subsections.

By type of asset: Marketable bonds represent the largest percentage of our asset portfolio. Investment grade bonds, carrying a credit rating of BBB or better, make up 98% of our bond portfolio (99% in 2000). Government bonds make up 64% of the portfolio (62% in 2000).

By geography: Our mortgage loan and real estate portfolios are primarily held within Canada, consistent with the concentration of our liabilities. We diversify the portfolios across the country, with the majority of assets invested in Ontario.

By industry sector: Our corporate loan portfolio is spread across a diversified mix of industries with emphasis placed on those industries with proven credit ratings. As at December 31, 2001, 19% (20% in 2000) was invested in the finance and insurance sector, 23% (25% in 2000) was invested in the real estate sector, and the remainder in sectors such as minerals and energy, transportation and communication and manufacturing.

By borrower: Our investment policies limit exposure to any one corporate entity, or group of related entities, to $300 million. In addition to this broad limitation, exposure to any one corporate entity is also subject to further limits based on the borrower's credit rating and available collateral. As at December 31, 2001, our largest single loan exposure to one company was $49 million ($49 million in 2000), while our largest total exposure to a single company or group of related companies was $222 million ($246 million in 2000).

ii) Market risk

Market risk is the uncertainty about financial outcomes arising from changes in market prices or indices. Specific market risks and how they are managed are described below:

Interest rate risk: Interest rate risk is the risk that changes in interest rates will result in economic loss.

This risk is managed through continuous monitoring of the cash flows for asset and liability portfolios and by calculating their sensitivity to interest rate changes (see Note 9). We also use several measures to determine our exposure, including duration, key rate sensitivity and value-at-risk (VAR) analysis. There are maximum allowable risk exposures for all measures used and we control exposure by changing the composition of the portfolio or by using derivative instruments (see Note 19).

Liquidity risk: Liquidity risk is the risk of having insufficient funds available to meet financial obligations when they are due.

Liquidity risk is managed through careful monitoring of cash flows on a daily basis. Products are designed with the goal of minimizing unexpected liquidity demands. Clarica maintains asset portfolios of liquid investments and maintains access to external sources of liquidity such as commercial paper and lines of credit. For additional details on liquidity risk, see Note 9.

Liquidity position

(Cdn$, in millions)	2001	2000	1999
Cash & short-term investments	$ 3,195	$ 2,701	$ 2,424
Marketable bonds	11,413	10,598	10,237
Marketable stocks	1,675	1,721	1,249
Total liquid assets	$ 16,283	$15,020	$13,910
Unutilized credit	1,119	985	896
Total sources of liquidity	$ 17,402	$16,005	$14,806
Liquidity ratio	52%	51%	49%

The liquidity ratio represents total liquid assets as a percentage of total corporate assets. Our current liquidity ratio of 52% allows us to meet cash flow needs while maintaining a reasonable rate of return on the portfolio.

Foreign exchange risk: Foreign exchange risk is the risk that amounts payable and/or amounts receivable will be negatively affected by changes in the currency exchange rate.

We use various financial instruments, including foreign exchange forwards and swap agreements, that allow us to hedge against adverse movement in the exchange rate. Our policy is to limit our currency mismatch exposure (the difference between foreign assets and foreign liabilities) within defined limits.

Changes in value of equities and real estate risk: There is the risk that fluctuations in stock market or real estate prices will result in financial loss.

To manage this risk, these investments are subject to set limits that are monitored on a regular basis. We manage risks associated with our segregated fund guarantees through product design. Accounting policies for insurance companies moderate the impact of market fluctuations on investment income. These policies amortize unrealized gains and losses into income at 15% for equities and 10% for real estate.

iii) Insurance risk

Insurance risk is the uncertainty about financial outcomes due to differences between the actual and expected amount of claims and benefit payments. Differences can result from variations in mortality experience (death), morbidity experience (disability, health and dental) and the rate at which policies lapse or terminate.

We manage insurance risk through product design, sensitivity analysis and experience studies. When we design a product we subject it to extensive analysis including modeling and sensitivity testing. This analysis determines how sensitive the product will be to changes in assumptions and enables us to price the product accordingly. The more sensitive a product is to changes in assumptions, the higher the risk of financial loss. We do not sell products that exceed our established risk limits. We also build features into products that allow sharing of risk through adjustments to the price or the benefit, based on experience. Experience studies are completed on a regular basis to help us determine appropriate pricing assumptions and identify trends for future investigation. In addition, a reconciliation of actual results against the valuation assumptions is performed quarterly as part of the financial reporting process. Significant assumptions are reviewed annually considering the experience of the last year and any emerging trends. Note 2 provides a description of the assumptions made, while Note 9 discusses those assumptions most sensitive to change.

We reduce exposure to insurance risk by using reinsurance guidelines, which limit the amount of risk retained under any one policy. Policies in excess of the limits are partially reinsured through the exclusive use of reinsurers with a financial rating of AA or better. For example, insurance on a single life in excess of $3 million is reinsured. Catastrophic loss reinsurance agreements are also in place to provide additional protection for the Company.

iv) Business risk

Business risk is the uncertainty about financial outcomes due to changes in product volumes and margins. This includes risks the Company faces from the choice of strategy; product design and pricing; actions of key competitors; and regulatory changes.

We manage these risks through strong governance processes. The Board of Directors provides an oversight role to the management activities. The Executive Management Committee is accountable for providing appropriate leadership and strategic direction for the organization. The business planning process ensures comprehensive business plans are developed regularly and approved annually by the Board of Directors. The planning process includes risk identification and analysis by business segment and assessment of the impact of those risks on certainty over future income streams, as well as the impact on customers and our infrastructure.

v) Operational risk

Operational risk is the uncertainty about financial outcomes arising from events caused by failures in people, process and technology, as well as external dependencies. Examples of specific operational risks include human or information system processing errors; non-compliance with existing policies or regulations; and external disruption.

The most effective factor in the management of operational risks is a strong internal control environment. Senior management is accountable to Clarica's Board of Directors for maintaining a strong and disciplined control environment to provide reasonable assurance to shareholders and policyholders that operational risks are appropriately managed. The internal control environment is managed through:

- appropriate investments in management information systems,
- communication of business conduct boundaries across the organization through agent and staff codes of conduct and other methods,
- appropriate segmentation of duties in key areas,
- effective compliance management systems, and
- establishment of an effective internal audit process.

The Board of Directors and its committees supervise and review the effectiveness of management's efforts in this regard. This includes annual reviews of key risk management policies and procedures, approval of credit and investment policies, updates on significant risk events and the review of reports from Corporate Risk Management, Corporate Audit Services and the Company's external auditors.

vi) Organizational risk

Organizational risk is the uncertainty about financial outcomes relating to the Company's structure and capabilities. It pertains specifically to the Company's ability to implement business strategies and effectively manage the operations. Examples of specific organizational risks include the inability to attract and retain qualified people; and inadequate or inappropriate incentive programs to reward and motivate employees.

Strong change management practices are employed as a means of managing this exposure. These practices include appropriate market-based incentive programs to attract and retain qualified and experienced staff and communication channels that allow for meaningful dialogue between employees and senior management. The Leadership Resources and Compensation Committee of the Board of Directors oversees these management practices.

D.2 Capital management

Determining the amount and mix of capital requires a balance of several objectives. Clarica's goal is to maintain sufficient capital to meet the expectations of shareholders, policyholders and regulators while optimizing return on equity. We monitor our capital position through various measures and continually look for ways to increase capital efficiency.

The Company's capital structure as at December 31, was:

(Cdn$, in millions)	2001	2000	1999
Subordinated debt			
Series 1 debentures	$ 250	$ 250	$ 250
Series 2 debentures	150	150	150
Series 3 debentures	300	300	–
Guaranteed bonds	45	43	270
Total debt	$ 745	$ 743	$ 670
Preferred shares	148	148	–
Common shareholders' equity	3,029	2,710	2,449
Total capital	$ 3,922	$ 3,601	$ 3,119
Debt-to-capital ratio	19%	21%	21%

A key measure of capital management is the debt-to-capital ratio, which was 19% as at December 31, 2001, falling slightly below our target range of 20–25%.

We also measure our capital using the industry standard of the Minimum Continuing Capital and Surplus Requirement (MCCSR) ratio. The calculation of the ratio is prescribed by the Office of the Superintendent of Financial Institutions (OSFI) as available capital over required capital. Available capital is calculated in accordance with OSFI guidelines and is not the same as the capital shown on our *Consolidated Balance Sheet.* Strong earnings and revised requirements for segregated fund guarantees in 2001 increased the MCCSR ratio while capital transactions and poor market performance reduced the ratio. Overall, Clarica's MCCSR ratio increased to an estimated 202% as at December 31, 2001, well above the OSFI requirement of 120% and just above our target range of 175–200%.

E. Sun Life Financial combination transaction

On December 17, 2001, Clarica and Sun Life Financial Services of Canada Inc. ("Sun Life Financial") entered into a Transaction Agreement pursuant to which Sun Life Financial will acquire all of the outstanding common shares of Clarica through a capital reorganization of Clarica. Clarica shareholders will receive 1.5135 common shares of Sun Life Financial for each common share of Clarica held.

The combined organization will be:

- one of the leading publicly-traded North American life insurance companies, measured by market capitalization;
- a leader in Canada in group life and health insurance, in group retirement services, in retail insurance premiums in force, and in customer base, with approximately seven million Canadian customers; and
- well-positioned to take advantage of Sun Life Financial's substantial and expanding U.S. business and growing international operations.

The completion of the transaction is subject to the satisfaction or waiver of certain conditions, including:

- the approval of the transaction by at least two-thirds of the votes cast at the special meeting referred to below by Clarica shareholders, voting separately as a class, and by at least two-thirds of Clarica's shareholders and voting policyholders, voting together;
- the approval of the transaction by, among others, the Minister of Finance (Canada) and the Superintendent of Financial Institutions (Canada); and
- the receipt of approval or expiration or termination of waiting periods under Canadian and United States competition or antitrust laws.

Clarica's shareholders and voting policyholders will be asked to consider and, if deemed advisable, approve the transaction at a special meeting scheduled to be held on March 6, 2002.

If the transaction is completed, the Clarica shareholders will own, in the aggregate, approximately 30% of the outstanding common shares of Sun Life Financial and Sun Life Financial will own all of the outstanding common shares of Clarica. The timing of completion of the transaction will depend upon, among other things, the timing of the receipt of all required regulatory approvals. Completion of the transaction is currently anticipated in the second quarter of 2002.

Supplementary table

Consolidated Statements of Income – quarterly information

(Cdn$, in millions, except basic earnings per common share) For the three months ended	2001				2000			
	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Revenue								
Premiums	$ 1,289	$ 965	$ 847	$ 914	$ 889	$ 825	$ 887	$ 929
Investment income	543	500	517	492	508	524	529	518
Fees & other income	76	66	66	66	61	64	62	55
	1,908	1,531	1,430	1,472	1,458	1,413	1,478	1,502
Benefits & expenses								
Benefits paid & provided for	1,422	1,123	1,000	1,045	948	1,014	1,056	1,121
General expenses	216	176	180	215	173	158	177	167
Commissions	108	86	86	82	87	80	91	82
	1,746	1,385	1,266	1,342	1,208	1,252	1,324	1,370
Income before taxes & goodwill charges	162	146	164	130	250	161	154	132
Income taxes	41	34	52	34	82	64	56	47
Net income before goodwill charges	121	112	112	96	168	97	98	85
Goodwill charges, net of tax	5	6	5	6	73	6	14	15
Net income	$ 116	$ 106	$ 107	$ 90	$ 95	$ 91	$ 84	$ 70
Summary of net income:								
Undistributed participating policyholders' income (loss)	(1)	(1)	(1)	(2)	1	(1)	–	–
Dividends on preferred shareholders	3	2	3	2	2	2	3	–
Net income attributable to common shareholders	114	105	105	90	92	90	81	70
Net income	$ 116	$ 106	$ 107	$ 90	$ 95	$ 91	$ 84	$ 70
Basic earnings per common share	$ 0.85	$ 0.78	$ 0.78	$ 0.67	$ 0.69	$ 0.67	$ 0.60	$ 0.52
Diluted earnings per common share	$ 0.84	$ 0.78	$ 0.78	$ 0.67	$ 0.69	$ 0.67	$ 0.60	$ 0.52

Financial Reporting Responsibility

The accompanying consolidated financial statements and related financial information throughout this Annual Report have been prepared by management, which is responsible for their integrity, objectivity and reliability. Generally accepted accounting principles have been applied and management has exercised its judgment and made best estimates where deemed appropriate.

Management of the Company has established and maintains a system of internal controls that provides reasonable assurance that financial records are complete and accurate, assets are protected from unauthorized use or disposition, and the organizational structure provides for effective segregation of responsibilities. Management continually monitors the system of internal controls for compliance. The control environment is enhanced by the selection and training of competent management, and a business ethics policy demanding the highest standards of conduct by employees carrying out the Company's affairs.

An internal auditing program is maintained by the Company that independently assesses the effectiveness of the internal controls. This program is an integral part of the system of internal control and is carried out by a professional staff of auditors. The Corporate Audit Services Vice-President has full and free access to, and meets periodically with, the Audit Committee of the Board of Directors.

The Company's Board of Directors, acting through the Audit Committee which comprises directors who are not officers or employees of the Company, oversees management's responsibility for the financial reporting and internal control system.

The Actuary of the Company is appointed by the Board of Directors to carry out an annual valuation of the Company's liabilities for future policy benefits. In performing this valuation, the Appointed Actuary makes assumptions as to future investment yields, mortality, disability, policy terminations, expenses and other contingent events, taking into account the circumstances of the Company and the policies in force and in accordance with accepted actuarial practice as set out by the Canadian Institute of Actuaries. The *Appointed Actuary's Report to the Shareholders, Policyholders and Directors* appears in this Annual Report, and the Actuary also reports to the Superintendent of Financial Institutions Canada on these matters. The Appointed Actuary has full and free access to, and meets periodically with, the Audit Committee of the Board of Directors.

Ernst & Young LLP, the auditors appointed by the shareholders and policyholders, examine the Company's financial statements. Their *Auditors' Report to the Shareholders, Policyholders and Directors*, which appears in this Annual Report, and their report to the Superintendent of Financial Institutions Canada, express an independent professional opinion of the fairness of presentation of the Company's consolidated financial statements in accordance with accounting requirements of the Insurance Companies Act (Canada). The auditors review the Company's financial and accounting controls and conduct such tests and procedures as they deem necessary under generally accepted auditing standards in Canada. They have full and free access to, and meet periodically with, the Audit Committee of the Board of Directors.

The Superintendent of Financial Institutions Canada performs periodic examinations of the Company to satisfy himself that the provisions of the Insurance Companies Act (Canada), having reference to the safety of the creditors, policyholders and shareholders of the Company, are being duly observed and that the Company is in sound financial condition.

David A. Ganong
Chairman of the Board

Robert M. Astley
President and
Chief Executive Officer

David Williamson
Executive Vice-President and
Chief Financial Officer

Auditors' Report to the Shareholders, Policyholders and Directors

We have audited the *Consolidated Balance Sheets* of Clarica Life Insurance Company, including the separate Consolidated Statements of Net Assets of its Segregated Funds, as at December 31, 2001 and 2000, and the Consolidated Statements of Income, Shareholders' and Policyholders' Equity, Cash Flows, and Changes in Net Assets of its Segregated Funds for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company and its Segregated Funds as at December 31, 2001 and 2000, and the results of the Company's operations, cash flows, and the changes in the net assets of its Segregated Funds for the years then ended in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.

Ernst & Young LLP

ERNST & YOUNG LLP
Kitchener, Ontario
January 31, 2002

Appointed Actuary's Report to the Shareholders, Policyholders and Directors

I have valued the liabilities for future policy benefits of Clarica Life Insurance Company for its *Consolidated Balance Sheets* as at December 31, 2001 and 2000, and their change in the *Consolidated Statements of Income* for the years then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of liabilities for future policy benefits makes appropriate provision for all policyholder obligations and the consolidated financial statements fairly present the results of the valuation.

Douglas W. Brooks
Fellow, Canadian Institute of Actuaries
Senior Vice-President and Chief Actuary
January 31, 2002

Consolidated Statements of Income

December 31 (Canadian $ in millions)	Note	2001	2000
Revenue			
Premiums for			
Life insurance		$ 2,210	$ 2,098
Annuities		1,094	763
Health insurance		711	669
	10	4,015	3,530
Investment income	16	2,052	2,079
Fees & other income		274	242
		6,341	5,851
Benefits & expenses			
Benefits paid & provided for			
Life insurance benefits & surrenders		1,720	1,564
Annuity payments & maturities		1,727	1,479
Health insurance benefits		657	583
Policyholder experience dividends		418	444
Interest on amounts on deposit		68	69
		4,590	4,139
General expenses		787	675
Commissions		362	340
		5,739	5,154
Income before taxes & goodwill charges		602	697
Income taxes	17	161	249
Net income before goodwill charges		441	448
Goodwill charges, net of tax	21	22	108
Net income		$ 419	$ 340
Summary of net income			
Undistributed participating policyholders' loss		$ (5)	$ –
Dividends on preferred shares		10	7
Net income attributable to common shareholders	15	414	333
Net income		$ 419	$ 340
Basic earnings per common share before goodwill charges	15	$ 3.23	$ 3.15
Diluted earnings per common share before goodwill charges	15	$ 3.22	$ 3.15
Basic earnings per common share	15	$ 3.08	$ 2.48
Diluted earnings per common share	15	$ 3.07	$ 2.48

Consolidated Balance Sheets

December 31 (Canadian $ in millions)	Note	2001	2000
Assets			
Cash & short-term investments	4	$ 3,195	$ 2,701
Marketable bonds	4	11,112	10,127
Residential mortgage loans	4	2,722	2,985
Non-residential mortgage loans	4	4,871	4,453
Corporate loans	4	4,300	4,128
Stocks	4	2,192	2,113
Real estate	4	890	804
Other investments	4	138	128
Loans on policies	4	814	766
Goodwill		394	334
Other assets	6	983	1,153
Total assets		$ 31,611	$ 29,692
Liabilities & equity			
Liabilities for future policy benefits	8	$ 22,723	$ 21,627
Guaranteed trust deposits		471	459
Deferred net capital gains	11	1,247	1,389
Other liabilities	12	3,247	2,610
		27,688	26,085
Subordinated debt	13	745	743
Equity			
Participating policyholders' interest	11	1	6
Shareholders' equity			
Preferred stock	14	148	148
Capital stock	14	884	884
Retained earnings		2,126	1,821
Currency translation account		19	5
		3,177	2,858
Total liabilities & equity		$ 31,611	$ 29,692

On behalf of the Board

David A. Ganong
Chairman of the Board

Robert M. Astley
President and
Chief Executive Officer

Krystyna T. Hoeg
Director and Chair
of the Audit Committee

Consolidated Statements of Shareholders' Equity and Participating Policyholders' Interest

December 31 (Canadian $ in millions)	Note	2001	2000
Shareholders' equity			
Capital & preferred stock	14		
Balance, beginning of year		$ 1,032	$ 884
New shares issued		–	148
Balance, end of year		1,032	1,032
Retained earnings			
Balance, beginning of year		1,821	1,567
Net income		424	340
Dividends on common shares		(109)	(79)
Dividends on preferred shares		(10)	(7)
Balance, end of year		2,126	1,821
Currency translation account		19	5
Total shareholders' equity		$ 3,177	$ 2,858
Participating policyholders' interest			
Appropriated capital	14e	$ 10	$ 10
Undistributed participating policyholders' loss			
Balance, beginning of year		(4)	(4)
Undistributed participating policyholders' loss for the year		(5)	–
Balance, end of year		(9)	(4)
Total participating policyholders' interest		$ 1	$ 6

Consolidated Statements of Cash Flows

December 31 (Canadian $ in millions)	Note	2001	2000
Cash flows from operating activities:			
Net income		$ 419	$ 340
Changes in non-cash operating items			
Net provisions for impaired loans		8	30
Amortization of realized & unrealized gains	16	(204)	(240)
Amortization of premiums & discounts		(75)	(77)
Goodwill charges		22	108
Future income taxes		132	(115)
Sale, maturity or repayment of invested assets			
Marketable bonds		7,349	6,572
Mortgage & corporate loans		3,221	3,189
Stocks		685	1,491
Real estate		2	4
Purchase of invested assets			
Marketable bonds		(8,045)	(6,097)
Mortgage & corporate loans		(3,485)	(2,947)
Stocks		(813)	(1,950)
Real estate		(82)	(19)
Increase (decrease) from other operating activities			
Liabilities for future policy benefits		1,096	(235)
Other assets & liabilities		852	310
Taxes payable		(150)	(18)
Effect of exchange rates		(170)	(142)
Net cash from operating activities		762	204
Cash flows from investing activities:			
Acquisitions	3	(85)	(169)
Net cash from investing activities		(85)	(169)
Cash flows from financing activities:			
Issue of preferred shares for cash	14a	–	148
Purchase of subordinated debt		–	(235)
Issue of subordinated debt		–	300
Dividends on common shares		(109)	(79)
Dividends on preferred shares		(10)	(7)
Net increase (decrease) in commercial paper borrowings		(64)	115
Net cash from financing activities		(183)	242
Net increase in cash & short-term investments		494	277
Cash & short-term investments, beginning of year		2,701	2,424
Cash & short-term investments, end of year		$ 3,195	$ 2,701
Supplementary disclosure of cash flow information:			
Amount of interest paid during the year		$ 121	$ 125
Amount of income taxes paid during the year		$ 150	$ 131

Consolidated Segregated Funds Statements of Net Assets

December 31 (Canadian $ in millions)	Note	2001	2000
Assets			
Cash & short-term investments		$ 110	$ 101
Marketable bonds		453	476
Stocks, segregated & mutual funds		10,240	8,979
Other assets & liabilities (net)		5	16
Net assets due to segregated fund policyholders		$ 10,808	$ 9,572

Consolidated Segregated Funds Statements of Changes in Net Assets

December 31 (Canadian $ in millions)	Note	2001	2000
Net assets, beginning of year		$ 9,572	$ 8,184
Additions			
Premiums		2,558	2,042
Investment income		351	541
Net market value (losses) & other income		(619)	(179)
Net transfers from the Company		35	231
		11,897	10,819
Deductions			
Benefits paid to policyholders		1,014	1,172
Management & administration fees		75	75
Net assets, end of year		$ 10,808	$ 9,572

1. Summary of significant accounting policies

As required under section 331(4) of the *Insurance Companies Act* (Canada) ("the Act") these financial statements are, except as otherwise specified by the Office of the Superintendent of Financial Institutions Canada (OSFI), prepared in accordance with Canadian generally accepted accounting principles, the primary source of which is the *Handbook of the Canadian Institute of Chartered Accountants* (CICA). None of the accounting requirements of the Superintendent of Financial Institutions Canada applicable to the Company are exceptions to generally accepted accounting principles. The following is a summary of the significant accounting policies and practices of the Company.

a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. Investments in which the Company has significant influence are accounted for using the equity method and proportionate consolidation is used to account for interests in real estate joint ventures.

b) Cash and short-term investments

Cash and short-term investments are investments that consist of cash on hand, balances with banks and investments in money market instruments having original maturities of 90 days or less.

c) Foreign currency

Assets and liabilities denominated in foreign currencies are translated at year-end exchange rates. Revenues and expenses are translated at average exchange rates for the year.

Gains and losses from currency translation of the Company's net investment position in foreign operations, net of hedged positions, are shown in the currency translation account, a separate item in shareholders' and policyholders' equity. Gains and losses from currency translation of domestic operations are included in current income except for realized and unrealized gains and losses arising from the translation of marketable bonds, mortgage and corporate loans, and stocks, which are included in a manner consistent with the accounting policy of the related item.

d) Marketable bonds, mortgage and corporate loans

Marketable bonds are carried at amortized cost. Mortgage and corporate loans are carried at amortized cost less repayments. Generally, realized gains and losses on sale are considered to be adjustments of future portfolio yields and are shown in the *Consolidated Balance Sheet* as part of deferred net capital gains. They are included in income over the lesser of the period to maturity of the investment or 20 years from the date of sale.

Impaired marketable bonds, mortgage and corporate loans include non-insured investments that are more than 90 days in arrears, insured investments that are more than 365 days in arrears, and investments that are less than 90 days in arrears but for which management does not have reasonable assurance that the full contractual amount of the bond, mortgage or loan (principal and interest) will be collected. Such investments are valued at their estimated realizable value calculated as the net present value or observable market price of their expected future cash flows when feasible. When such valuation is not feasible, impaired assets are valued at the current market value of the underlying security of the asset.

Interest on loans is accrued as earned until such time as the loan is classified as impaired. Non-accrual loans are restored to an accrual basis when principal and interest payments are current and there is no longer any reasonable doubt as to ultimate collection.

Restructured loans are valued at the net present value of the estimated cash flows discounted at the contractual interest rate in effect immediately prior to the restructuring.

An allowance for loan impairment, comprising specific, general and actuarial provisions, is maintained at a level that, in management's judgement, is adequate to absorb all known credit related losses in the Company's portfolio. Specific provisions are established on particular assets in order to reduce their carrying value to estimated realizable value. The actuarial and general provisions are established based on the Company's historical loan loss experience and management's assessment of the credit risk of the entire portfolio, but cannot be determined on an item-by-item basis. The actuarial asset default provisions are included in the liabilities for policy benefits (Note 2f).

e) Stocks

Stocks are carried at a moving average market value whereby the carrying value is adjusted from cost towards market value at 15% per annum. Net realized gains and losses on the disposal of stocks are included in deferred net capital gains and included in income at 15% per annum on a declining balance basis. Declines in the market value of the entire equity portfolio that are not considered to be temporary in nature are charged to income immediately.

f) Real estate

Real estate is carried at a moving average market value whereby the carrying value is adjusted from cost towards market value at 10% per annum. Net realized gains and losses on the disposal of real estate are included in deferred net capital gains and included in income at 10% per annum on a declining balance basis. Market values on each property are established by qualified appraisers at least every three years. Properties with significant book values are reviewed annually and reappraised when it is perceived that there may have been a material change in market value. Declines in the market value of the entire real estate portfolio that are not considered to be temporary in nature are charged to income immediately.

g) Loans on policies

Policy loans are made to policyholders on the security of their policies in accordance with the provisions of their policy contracts. Policy loans are carried at their unpaid balance and are fully secured by the policy values.

h) Goodwill and intangible assets

Goodwill represents the excess of purchase consideration over the fair value of the net assets acquired. Goodwill is allocated to the lines of business, based on expected return on investments. Goodwill that resulted from acquisitions that occurred prior to July 1, 2001, is amortized into income on a straight-line basis over its estimated useful life, but not exceeding a period of 20 years. The CICA issued new accounting standards for transactions effective on or after July 1, 2000; therefore, goodwill that resulted from acquisitions that occurred after July 1, 2001 is not amortized. Intangible assets with finite lives are amortized into income on a straight-line basis over an appropriate period not exceeding 10 years. The carrying value of goodwill and intangibles are evaluated on an ongoing basis and any impairment in value is charged to income immediately. In order to determine whether any impairment in value exists, management considers each business segment's financial condition, projected future earnings and cash flows.

i) Other assets

Included in other assets are furniture, equipment and leasehold improvements that are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are recorded on the straight-line basis at annual rates of 10% to 50%, sufficient to write the assets off over their estimated useful lives.

j) Liabilities for future policy benefits

Liabilities for future policy benefits are the amounts that, together with future premiums and investment income, will be sufficient to pay future policy benefits, expenses and experience dividends on insurance and annuity contracts. These liabilities have been calculated using the Canadian Asset Liability Method. The process of calculating liabilities for future policy benefits involves the use of estimates concerning such factors as mortality and disability rates, future investment yields, future expense levels and lapses, including a reasonable provision for adverse deviation. As the probability of deviation from estimates declines, this provision will be included in future income to the extent not required to cover adverse experience. Significant actuarial policies used to project benefits as described in Note 2, are based on Company and industry experience and are updated as appropriate.

k) Stock incentive plans

The Company maintains stock incentive plans for management and an employee share ownership program, both of which are described in Note 14c. No compensation expense is recognized for the stock incentive plans when stocks or stock options are issued. Matching contributions made by the Company to the employee share ownership program are expensed. Any consideration received by the Company on the exercise of stock options or the purchase of stock is credited to share capital. If stock or stock options are repurchased from management or employees, the excess of the consideration paid over the carrying amount of the stock or stock options cancelled is charged to retained earnings.

l) Participating policyholder interest

The Company segments assets related to the participating business from assets related to the non-participating business. Net income on participating policies is credited to participating policyholders' interest after deducting certain amounts that will accrue to the benefit of shareholders as explained below. All other net income is credited to the shareholders' account.

The Act and related regulations permit certain transfers from the participating policyholders' interest account to the shareholders' account. The provisions for adverse deviation related to the participating policies sold up to the conversion to a stock life company will be included in shareholders' income as they are released over time from the corresponding liabilities for future policy benefits. In addition, shareholders' income will include a transfer from the participating policyholders' earnings of 3% of the policyholder dividends paid on participating policies sold after the conversion to a stock life company.

m) Income taxes

The Company provides for income taxes using the liability method of income tax allocation. Under this method, current income taxes are based on taxable income and future income taxes are based on taxable temporary differences. The income tax rates used to measure income tax assets and liabilities are those rates enacted at the balance sheet date.

n) Employee future benefits

The Company provides certain pension and other future employment benefits to eligible participants upon retirement. These benefits are provided both on defined benefit and defined contribution bases and reflect compensation history, length of service and level of contributions. The cost of the defined benefits is actuarially determined and accrued using the projected benefit method pro-rated on service. This method involves the use of management's best estimates concerning such factors as expected plan investment performance, future salary increases, retirement ages of plan members and expected health care costs. These costs are recognized in the *Consolidated Statement of Income* in the period during which the services are rendered. Plan assets are carried at market values. The assets supporting the pension benefits are held in separate trusteed pension funds.

The estimated excess of the market value of plan assets over retirement obligations, including adjustments arising from plan amendments and changes in valuation assumptions, is included in income over the estimated average remaining lives of participants. Actuarial gains and losses are included in income using the corridor approach.

The cumulative difference between the pension expense and the funding contributions for the pension benefits is recorded in the *Consolidated Balance Sheet* under other assets or other liabilities, as appropriate. The accumulated value for the other employee future benefits is recorded in the *Consolidated Balance Sheet* as other liabilities.

o) Segregated funds

Separate financial statements are provided for segregated fund transactions and balances. Segregated fund assets are carried at market values. The *Consolidated Statement of Income* includes fund management fees earned by the Company.

p) Derivatives

The Company uses options, futures, forward contracts, swaps and equity derivatives for asset liability management purposes. Swaps used to manage interest rate exposure from on balance sheet positions are accounted for on the accrual basis. Gains and losses on forwards, options and foreign exchange contracts are included in income or the currency translation account on the same basis as gains or losses on the underlying positions being hedged. Realized gains or losses on terminated contracts are deferred and amortized over the remaining life of the related position.

q) Presentation and disclosure

Certain 2000 figures have been reclassified to conform to the presentation adopted in the current year.

2. Summary of significant actuarial policies

As required under section 365(2) of the Act, the liabilities for future policy benefits are, except as otherwise specified by OSFI, prepared in accordance with generally accepted actuarial practice, the primary source of which is the standards of practice of the Canadian Institute of Actuaries. None of the actuarial requirements of OSFI applicable to the Company are exceptions to accepted actuarial practice. The process of calculating liabilities for future policy benefits involves the use of estimates of the future events affecting the timing of claims and benefit payments. The following is a summary of the Company's significant actuarial policies with respect to the estimation of these events.

a) Mortality

The Company uses the most recent industry experience table appropriate for each product, adjusted for Company experience. Mortality improvements are projected into the future for annuitants using an appropriate industry projection scale but no mortality improvements are projected for life insureds.

b) Disability

The Company carries out an experience study every two years on group long-term disability. The Company's average experience over the last five years is used to establish the expected disability assumption.

c) Expenses

Policy maintenance expenses are derived from the Company's internal cost allocation studies. No productivity gains are projected. Unit expense factors are projected to increase into the future assuming an appropriate inflation rate.

d) Lapses

Lapse assumptions are generally based on annual company lapse studies. The Company does not sell lapse supported products; however, some lapse supported business has been obtained through acquisitions. For these products, the estimate of future lapse rates is based on a blend of Company experience and industry experience when no Company experience is available.

e) Investment return

The Company maintains asset segments backing products with similar attributes. For each segment, the projected cash flows are combined with future reinvestment rates, derived from the current economic outlook and the Company's investment policy, to establish expected rates of return for the segment for all future years, including reasonable provisions for asset defaults and investment expenses. Any excess or deficiency in the market value of investments, with cash flow and interest profiles that match the liabilities, is comparable to the excess or deficiency in the market value of liabilities for future policy benefits.

f) Asset defaults

Current and future investment returns reflect expected asset defaults. The Company annually reviews its asset default experience for the prior 10 years. The expected future asset defaults are based on the magnitude and cyclicality of defaults observed in the past.

g) Experience dividends

Future experience dividends declared by the Board are included in liabilities for future policy benefits in the current operating year, in accordance with the established dividend policy of the Company. The actuarial liabilities reflect the expectation that the experience dividends will be adjusted in accordance with future experience.

3. Acquisitions

Ash Brokerage Corporation

On October 19, 2001 Clarica U.S. Inc. acquired 85% of Ash Brokerage Corporation and its affiliate, AFH Financial Consortium, Inc. The acquisition was accounted for as a purchase transaction and accordingly the purchase price was allocated to assets and liabilities acquired, based on their estimated fair value as at the acquisition date.

Other assets	$ 2
Intangibles	9
Goodwill	27
	38
Other liabilities	2
Fair value of net assets acquired	$ 36
Total purchase consideration, paid in cash	**$ 36**

Royal Trust Canadian Group Retirement Services

On January 31, 2001 Clarica acquired the Canadian group retirement services business of the Royal Trust Company and Royal Trust Corporation of Canada, wholly-owned subsidiaries of Royal Bank of Canada. The acquisition was accounted for as a purchase transaction and accordingly the purchase price was allocated to assets and liabilities acquired, based on their estimated fair value as at the acquisition date.

Receivables	$ 4
Goodwill	45
Total purchase consideration, paid in cash	**$ 49**

Integration expenses of $28 have been expensed in the year.

Sun Life Retrocession Business

On April 10, 2000, the Company acquired the life retrocession and financial reinsurance business of Sun Life Assurance Company of Canada for $170 through an assumption reinsurance transaction. The purchase price was allocated to the acquired assets and liabilities based on their estimated fair value as at the acquisition date:

Cash	$ 1
Marketable bonds	204
Other assets	327
	532
Liabilities for future policy benefits	308
Other liabilities	54
	362
Fair value of net assets acquired	$ 170
Total purchase consideration, paid in cash	**$ 170**

4. Fair value disclosure

The excess or deficiency in the fair value of the Company's liabilities for future policy benefits must be considered in conjunction with the comparable excess or deficiency in the fair value of the investments which have cash flow and interest rate profiles matching the liabilities. For example, the market value excess of a particular liability is comparable to the excess of the marketable bonds, mortgage and corporate loans supporting that liability.

	2001			2000		
	Carrying value	Fair value	Fair value excess (deficiency)	Carrying value	Fair value	Fair value excess (deficiency)
On balance sheet						
Assets						
Cash & short-term investments	$ 3,195	$ 3,195	$ –	$ 2,701	$ 2,701	$ –
Marketable bonds						
Government	7,057	7,346	289	6,304	6,685	381
Corporate	4,055	4,260	205	3,823	3,983	160
Mortgage loans						
Residential	2,722	2,867	145	2,985	3,074	89
Non-residential	4,871	5,233	362	4,453	4,715	262
Corporate loans	4,300	4,706	406	4,128	4,444	316
Stocks						
Common	1,904	1,791	(113)	1,853	1,843	(10)
Preferred	288	290	2	260	261	1
Real estate						
Investment properties	475	562	87	385	477	92
Real estate joint ventures	308	337	29	307	340	33
Properties acquired by foreclosure	13	13	–	22	22	–
Real estate for own use	94	116	22	90	114	24
Other investments	138	138	–	128	128	–
Loans on policies	814	814	–	766	766	–
Liabilities						
Liabilities for future policy benefits	22,723	24,952	2,229	21,627	23,797	2,170
Guaranteed trust deposits	471	488	17	459	472	13
Deferred net capital gains	1,247	–	(1,247)	1,389	–	(1,389)
Future income taxes	102	159	57	(25)	(60)	(35)
Other liabilities	3,145	3,145	–	2,610	2,610	–
Subordinated debt	745	749	4	743	727	(16)
Off balance sheet						
Derivative financial instruments	–	23	23	–	81	81
Net	$ 1,801	$ 2,152	$ 351	$ 1,402	$ 1,926	$ 524

The total fair value disclosed is not indicative of the fair market value of the Company.

The following methods were used to estimate the fair values of financial instruments:

Financial instruments with fair values equivalent to carrying values: Due to the nature of certain on balance sheet financial instruments, their carrying values were assumed to approximate their fair values. These financial instruments include cash and short-term investments, other investments, loans on policies and other liabilities.

Marketable bonds: The fair values of marketable bonds are based on market prices when available or quoted market prices of similar securities when market prices are not available.

Mortgage and corporate loans: The fair values of these loans are estimated as the net present value of expected future cash flows using current market interest rates (adjusted for prepayments as appropriate).

Stocks: Quoted market prices are used to determine fair values when available. If market prices are not available, business valuation techniques are used to estimate fair values.

Real estate: Fair values are estimated based on the most recent appraisal performed by qualified appraisers at least once every three years. Properties with significant book values are reviewed annually and reappraised when it is perceived that there may have been a material change in the market value.

Future income taxes: The fair values of future income taxes are estimated based on all financial assets and liabilities being measured at fair value.

Liabilities for future policy benefits: The fair values of the liabilities for future policy benefits have been estimated based on the fair values of the assets supporting them due to the interrelationship that exists between these two components in the balance sheet.

Guaranteed trust deposits: The estimated fair values of demand deposits are assumed to be equal to their carrying values due to their short-term nature. The fair values of fixed rate deposits are determined by discounting the contractual cash flows using market rates currently offered for similar remaining maturities.

Deferred net capital gains: Deferred net capital gains exist on a carrying value basis only as they represent the deferral of realized gains and losses on fixed term portfolio investments, stocks and real estate that will be amortized to income in future years.

Subordinated debt: The fair values of subordinated debt are based on quoted market prices when available or quoted market prices of debt with similar terms and risks when market prices are not available.

Off balance sheet: All derivatives used for asset liability management purposes are carried off balance sheet. The fair values of these instruments are estimated based on mathematical models utilizing inputs from published markets and/or broker/dealer price quotations (see Note 19).

5. Impaired investments

Marketable bonds, mortgage and corporate loans and other investments classified as impaired are as follows:

	2001				2000	
	Carrying value	Allowance for loan impairment	Net carrying value	% of portfolio	Net carrying value	% of portfolio
Marketable bonds	$ 1	$ 1	$ –	–	$ –	–
Residential mortgage loans	58	14	44	1.6 %	45	1.5 %
Non-residential mortgage loans	25	4	21	0.4 %	27	0.6 %
Corporate loans	71	37	34	0.8 %	20	0.5 %
Other investments	22	2	20	35.1 %	1	1.5 %
	177	58	119	0.5 %	93	0.4 %
General provision	–	22	(22)	(0.1)%	(40)	(0.2)%
Total	$ 177	$ 80	$ 97	0.4 %	$ 53	0.2 %

The continuity of the allowance for loan impairment is as follows:

	2001	2000
Balance, beginning of year	$ 107	$ 102
Additional provisions for credit losses charged to income statement (net of recoveries)		
Specific	19	19
General	(11)	11
Write-offs of specific provisions	(35)	(25)
Balance, end of year	$ 80	$ 107

At December 31, 2001, liabilities for future policy benefits included an amount of $813 ($684 in 2000) to provide for expected future asset defaults and related expenses as well as a margin for adverse deviation in future investment returns.

6. Other assets

	2001	2000
Accrued investment income	$ 269	$ 271
Premiums in course of collection	156	169
Future income tax asset	–	25
Other	558	688
Total	$ 983	$ 1,153

7. Assets and liabilities by business segment

Assets are selected such that they have characteristics compatible with the liabilities they are intended to support. To facilitate this matching, the Company's assets are divided into segments according to the attributes of the liabilities they support. For example, a segment of fixed rate assets exists to support the fixed rate obligations of the Company.

	Canada			United States			
2001	Retail Insurance	Wealth Management	Group Insurance	Insurance & Savings	Reinsurance	Surplus	Total
Cash & short-term investments[1]	$ 199	$ 688	$ 1	$ 87	$ 69	$ 2,151	$ 3,195
Marketable bonds	2,981	3,848	876	1,477	124	1,806	11,112
Mortgage loans	1,880	3,815	601	962	33	302	7,593
Corporate loans	801	1,937	427	634	99	402	4,300
Stocks	920	197	32	10	–	1,033	2,192
Real estate	450	1	–	6	–	433	890
Goodwill	–	–	–	–	–	394	394
Other assets	834	367	99	160	255	220	1,935
Total assets	$ 8,065	$ 10,853	$ 2,036	$ 3,336	$ 580	$ 6,741	$ 31,611
Liabilities for future policy benefits	$ 7,502	$ 9,581	$ 1,968	$ 3,131	$ 541	$ –	$ 22,723
Other liabilities	563	1,272	68	205	39	2,818	4,965
Subordinated debt	–	–	–	–	–	745	745
Equity	–	–	–	–	–	3,178	3,178
Total liabilities & equity	$ 8,065	$ 10,853	$ 2,036	$ 3,336	$ 580	$ 6,741	$ 31,611

2000	Retail Insurance	Wealth Management	Group Insurance	Insurance & Savings	Reinsurance	Surplus	Total
Cash & short-term investments[1]	$ 387	$ 551	$ 27	$ 75	$ 21	$ 1,640	$ 2,701
Marketable bonds	2,862	3,679	891	867	3	1,825	10,127
Mortgage loans	1,694	4,105	530	814	94	201	7,438
Corporate loans	636	2,015	411	544	86	436	4,128
Stocks	890	177	39	9	–	998	2,113
Real estate	387	1	–	2	–	414	804
Goodwill	–	–	–	–	–	334	334
Other assets	765	275	143	171	343	350	2,047
Total assets	$ 7,621	$ 10,803	$ 2,041	$ 2,482	$ 547	$ 6,198	$ 29,692
Liabilities for future policy benefits	$ 7,113	$ 9,701	$ 1,934	$ 2,362	$ 517	$ –	$ 21,627
Other liabilities	508	1,102	107	120	30	2,591	4,458
Subordinated debt	–	–	–	–	–	743	743
Equity	–	–	–	–	–	2,864	2,864
Total liabilities & equity	$ 7,621	$ 10,803	$ 2,041	$ 2,482	$ 547	$ 6,198	$ 29,692

1 Cash is managed on an overall Company basis. Business segments may use intersegment borrowing to meet their individual cash flow needs.

8. Continuity of liabilities for future policy benefits

		2001		2000
Balance, beginning of year		$ 21,627		$ 21,554
Liabilities assumed on acquisitions		–		308
Change in liabilities related to MetCan		–		(297)
Change in balance sheet				
Change in policyholder amounts on deposit	$ 10		$ 8	
Impact of foreign exchange	163	173	132	140
Provision for future policy benefits				
Liabilities arising on new business	1,428		993	
Change in liabilities on in force business	(494)		(1,055)	
Change in assumptions	(11)	923	(16)	(78)
Balance, end of year		$ 22,723		$ 21,627

Changes in assumptions can increase or decrease liabilities for future policy benefits. The most significant change in 2001 was a $24 decrease as a result of a refinement in calculation of the Canadian GAAP reserve for Clarica U.S. and the finalization of the Sun Life retrocession and financial reinsurance acquisition. The most significant change in 2000 was an $18 decrease that is largely related to the control of unit cost expenses.

The change in liabilities on in force business is mainly due to the decrease in guaranteed wealth management products.

In 2000, the changes in liabilities related to MetCan reflect liabilities transferred to other insurers. The transfer also resulted in a $208 charge to benefits paid. The net impact of the transfer on *Benefits paid & provided for* was $89, which was fully offset by a charge to goodwill.

9. Interest rate, measurement, credit and liquidity risk

Interest rate risk

In the normal course of operations the Company is exposed to interest rate risk. This risk is present to the extent that the cash flows from the assets supporting the liabilities do not match the policy obligations in timing and amount.

The largest segment of assets at $10.3 billion ($10.2 billion in 2000) supports primarily the Canadian annuity liabilities and is the most sensitive to changes in interest rates. Mismatches between the asset and liability cash flows for this segment are monitored and controlled on a daily basis. Several different methods are used to measure the exposure of this segment to interest rate risk including duration, key rate sensitivity and value-at-risk (VAR) analysis. Each of these methods looks at mismatches between cash inflows and outflows, by time period, to determine the impact of changes in interest rates on the Company's net income if, in any particular time period, excess funds will need to be reinvested or financing is required to meet obligations. The Company's investment policy statement establishes maximum allowable risk exposures for all measures used.

At December 31, 2001, if there had been an immediate increase in interest rates across the entire yield curve of one percentage point, the net income of the Company would be decreased, and net policy liabilities would be increased, by $0 ($1 in 2000). Conversely, if there had been an immediate decrease in interest rates of one percentage point, the net income of the Company would be decreased, and net policy liabilities would be increased, by $1 ($(1) in 2000).

At December 31, 2001, the 10-day VAR was $1 ($0 in 2000). The determination of VAR takes into consideration the individual sensitivities of key rates along the curve to changes in the market, the expected level of volatility at those points, and any correlation that may exist between the key rates when market movements occur. The consideration of all of these factors improves the accuracy of the measured impact by focusing on the effect of likely combinations of rate movements.

The timing and amount of expected future cash flows for the Canadian annuity business are detailed in the following cash flow gap table. The cash flows are based on the carrying value of the assets and liabilities at their maturity date. The size of the gaps by themselves are not an indicator of the extent of interest rate risk since the present value of the mismatched position has not been considered and the cash flows have been included in wide time bands. The VAR and the effect of a 1% parallel movement in the curve are much better indicators of the Company's exposure to interest rate risk. At all times the Company actively manages the mismatched position within defined limits for much narrower time bands.

Cash flow gap for the Canadian annuity business is as follows:

2001	Under 1 year	1 to 5 years	5 to 10 years	10 to 20 years	Over 20 years[1]
Assets					
Marketable bonds & short-term investments	$ 324	$ 2,115	$ 1,104	$ 2,742	$ 1,372
Residential mortgage loans	450	729	58	–	–
Non-residential mortgage loans	611	1,483	833	224	–
Corporate loans	468	1,142	705	436	135
Other investments[2]	225	388	(29)	47	(215)
Total assets	2,078	5,857	2,671	3,449	1,292
Total liabilities	2,058	5,831	2,562	2,917	1,651
Cash flow gap	$ 20	$ 26	$ 109	$ 532	$ (359)
Gap as a percentage of total Canadian annuity assets	0.2	0.3	1.1	5.2	(3.5)

1 The cash flows beyond year 30 have been discounted to year 20 to reflect the impact of interest.

2 Cash flows for other investments include the cash flows related to off balance sheet derivative instruments.

2000	Under 1 year	1 to 5 years	5 to 10 years	10 to 20 years	Over 20 years[1]
Assets					
Marketable bonds & short-term investments	$ 879	$ 1,926	$ 940	$ 2,614	$ 1,415
Residential mortgage loans	437	645	55	1	–
Non-residential mortgage loans	550	1,574	897	257	–
Corporate loans	537	1,171	707	502	135
Other investments[2]	74	552	165	203	(126)
Total assets	2,477	5,868	2,764	3,577	1,424
Total liabilities	2,288	5,938	2,623	3,167	1,763
Cash flow gap	$ 189	$ (70)	$ 141	$ 410	$ (339)
Gap as a percentage of total Canadian annuity assets	1.8	(0.7)	1.4	4.0	(3.3)

1 The cash flows beyond year 30 have been discounted to year 20 to reflect the impact of interest.

2 Cash flows for other investments include the cash flows related to off balance sheet derivative instruments.

The next largest segment of assets at $8.0 billion ($7.6 billion in 2000) supports primarily the Canadian life insurance liabilities. This segment is less sensitive to changes in interest rates since the dividend mechanism of the life insurance policies makes it possible for investment results to be flowed through to policyholders, which moderates the effect of gains and losses on the Company.

Measurement risk

The Company is exposed to measurement risk in the determination of liabilities for future policy benefits that require assumptions to be made about the timing and amount of future events. Assumptions include best estimates and a margin for adverse deviation to account for the risks and uncertainties involved in the valuation process. Note 2 addresses the significant events about which assumptions are made.

The Company evaluates its exposure to changes in the assumptions underlying the policy liabilities on an annual basis. The margin for adverse deviation in each assumption reflects the uncertainty in the best estimate and the probability that it will change.

The assumptions most susceptible to change are as follows:

a) Investment return on new assets

The section on interest rate risk above describes how the yield on assets affects the determination of policy liabilities, and how the impact of changes in yields is managed for minimum impact on the liabilities and, as a result, the net income of the Company.

b) Asset defaults

Asset defaults reduce the investment income that is available to support policy obligations. Liabilities for future policy benefits include a margin of 3.7% (3.3% in 2000) and are amortized into income in accordance with the Company's accounting policies. This margin comprises a 1.9% (1.7% in 2000) margin for estimated asset defaults and a 1.8% (1.6% in 2000) margin for adverse deviation.

c) Disability

Disability assumptions are based on the number of claims and the length of time individuals are on disability. Disability experience can be very volatile and difficult to predict because economic conditions and social factors have a strong impact on experience. The volatility in experience is managed by stringent underwriting criteria and active management of disability cases.

The impact of changes in other actuarial assumptions in the near term is unlikely to be material. The Company's experience, over the last several years, has been consistent with the actuarial assumptions made.

Credit risk

a) Concentration of credit risk

The following information represents the Company's concentration of credit risk in invested assets by the most appropriate indicator for each particular asset class.

Marketable bonds: At December 31, 2001, 98% of the bond portfolio was rated investment grade ("BBB") or better (99% in 2000), with 90% rated "A", "AA" or "AAA" (95% in 2000). Government bonds represent 64% of the portfolio (62% in 2000).

Residential mortgage loans, non-residential mortgage loans and real estate: Given that a significant portion of the liabilities of the Company are in Canada, a substantial portion of its assets are invested in Canada, mainly in Ontario, as shown in the following table:

	2001				2000			
(in percentages)	Ontario	Western Canada	Eastern Canada	U.S.	Ontario	Western Canada	Eastern Canada	U.S.
Residential mortgage loans	54	27	16	3	57	26	14	3
Non-residential mortgage loans	39	26	14	21	38	27	16	19
Real estate	74	21	4	1	72	22	5	1

Corporate loans: The corporate loan portfolio is well diversified on an economic sector basis as shown in the following table:

(in percentages)	2001	2000
Finance & insurance	19	20
Real estate	23	25
Minerals & energy	16	13
Transportation & communication	11	10
Manufacturing	7	7
Other	24	25
Total	100	100

b) Credit risk related to reinsurance agreements

The Company uses reinsurance agreements to limit potential losses on individual policies or catastrophic events and for capital management purposes. These agreements, and the associated risk, are separate and distinct from the operations of the Company's Reinsurance segment. The use of reinsurance creates credit risk and concentration of credit risk. Under a reinsurance agreement, the insurance risk is transferred, but the Company's retains its obligation to policyholders as the primary insurer. Failure of the reinsurer to meet its obligations may result in losses to the Company. To minimize potential losses, the Company monitors the concentration of risk with each reinsurer and deals only with reinsurers holding an AA or better credit rating. In 2001, the highest concentration of risk with any one reinsurer is 67% with an AAA rated reinsurer.

c) Credit exposure to a single issuer

Total exposure of the Company to any one corporate credit will not exceed $300. In addition to this broad limitation, exposure to any one corporate credit is also subject to further limits based on the extent to which the loan is collateralized and the borrower's credit rating.

Exposure to any corporate credit includes the book value of short-term instruments (excluding short-term instruments of Schedule 1 banks), bonds, corporate loans and leases, mortgages and preferred shares, the market value of common shares, as well as off balance sheet items such as derivative instruments. The Company's largest single loan exposure to a single company was $49 ($49 in 2000). The Company's largest total exposure to a single company or group of related companies was $222 ($246 in 2000).

Liquidity risk

Effective liquidity management is fundamental to maintaining client confidence, protecting the Company's capital base and providing for profitable business expansion. The Company's revenue is broadly diversified because of the large number of agents selling retail insurance and annuity products in Canada, and the large number of brokers and consultants selling group and individual products in the U.S. On an ongoing basis, cash available for investment is relatively stable because of the large amount of periodic premium payments received by the Company and the large number of fixed term instruments continually maturing. The Treasury Unit manages the Company's liquidity position by:

- maintaining asset portfolios of liquid investments;
- monitoring and managing the level and timing of outstanding commitments compared to cash and short-term investments available on a daily basis;
- providing input to product design with the goal of minimizing unexpected liquidity demands; and
- maintaining access to external sources of liquidity such as commercial paper and lines of credit.

Liquidity must also be maintained to provide for life insurance policies that permit policyholders to surrender their policies for a guaranteed surrender value at any time. Annuities may be surrendered, prior to the end of the stated maturity date, for a market value adjusted amount determined at the Company's discretion.

The Treasury Unit reports to the Management Investment Committee on a weekly basis, and an update of the liquidity profile is part of the information provided in monitoring compliance with the Company's investment policy statement.

The Company's liquidity profile was as follows:

	2001	2000
Sources of liquidity (market values)		
Cash & short-term investments[1]	$ 3,195	$ 2,701
Marketable bonds	11,413	10,598
Marketable stocks	1,675	1,721
Unutilized commercial paper facility	466	401
Unutilized lines of credit	653	584
Total available sources of liquidity	$ 17,402	$ 16,005
Uses of liquidity		
Surrenderable insurance & annuity policies	$ 14,440	$ 13,458
Repurchase agreements	2,091	1,516
Total potential uses of liquidity	$ 16,531	$ 14,974

1 Short-term investments include treasury bills, commercial paper, bankers' acceptances and reverse bond repurchase agreements.

Potential cash surrenders of life insurance and annuity policies are monitored and provided for in cash flow management. The table represents the potential maximum sources and uses of liquidity at a point in time. Actual cash surrender and maturity experience has averaged approximately $1.4 billion annually over the five years ended December 31, 2001.

10. Reinsurance agreements

The Company uses reinsurance agreements to limit potential losses on individual policies or catastrophic events and for capital management purposes.

The reinsurance agreements on operations is summarized below:

	2001	2000
Premiums		
Gross	$ 4,146	$ 3,575
Ceded	131	45
Net	$ 4,015	$ 3,530

Liabilities for future policy benefits are presented on the balance sheet net of reinsurance ceded of $540 as at December 31, 2001 ($513 in 2000).

11. Deferred net capital gains

Deferred net capital gains are amounts of unamortized net realized gains on loans and investments. The balance comprises the following:

	2001	2000
Marketable bonds, mortgage & corporate loans	$ 836	$ 827
Stocks	389	539
Real estate	22	23
Total	$ 1,247	$ 1,389

12. Other liabilities

	2001	2000
Commercial paper	$ 85	$ 149
Bond repurchase agreements	2,091	1,516
Securities sold, not yet repurchased	14	–
Future income taxes	102	–
Income & premium taxes payable	38	159
Other	917	786
Total	$ 3,247	$ 2,610

The Company issues commercial paper and enters into bond repurchase agreements for operational funding and liquidity purposes. Commercial paper maturities range from 2 to 7 days, averaging 4 days, and bearing interest rates averaging 2.27% at December 31, 2001 (5.86% in 2000). Bond repurchase agreements have maturities ranging from 2 to 91 days, averaging 27 days, and bearing interest rates averaging 2.27% at December 31, 2001 (5.74% in 2000). The agreements are continuously rolled over to meet ongoing short-term cash requirements.

13. Subordinated debt

Subordinated debt represents direct unsecured obligations of the Company that are subordinate to the Company's policyholders and other creditors. All subordinated debt issues are redeemable at the option of the Company, subject to approval by OSFI. The following obligations are included in subordinated debt as at December 31:

Issue	Maturity	Interest rate	Terms	2001	2000
$250 Series 1 Subordinated debentures	May 15, 2013	5.80%	After May 15, 2008, interest is payable at an annual rate equal to the 90-day Bankers' Acceptance Rate plus 1%. Redeemable in whole or in part at any time.	$ 250	$ 250
$150 Series 2 Subordinated debentures	May 15, 2028	6.30%	Redeemable in whole or in part at any time.	150	150
$300 Series 3 Subordinated debentures	October 12, 2015	6.65%	After October 12, 2010, interest is payable at an annual rate equal to the 90-day Bankers' Acceptance Rate plus 1%. Redeemable in whole or in part at any time prior to October 12, 2010. On or after October 12, 2010, redeemable in whole on interest payment date.	300	300
£125 Subordinated guaranteed bonds[1]	January 12, 2004	7.25%	Issued by Clarica (U.S.) and guaranteed by the Company. Redeemable in whole or in part any time after January 12, 1999.	45	43
Total				$ 745	$ 743

1 The Company has entered into a swap agreement to convert the guaranteed bonds into United States dollars for the full term of the bonds.

Total interest incurred on subordinated debt in 2001 was $47 ($39 in 2000).

14. Capital

a) Authorized and issued share capital

	2001			2000		
	Shares	Amount	Dividends per share	Shares	Amount	Dividends per share
Common shares, *unlimited authorized*						
Balance, beginning of year	134.3	$ 884		134.3	$ 884	
Issued during the year	–	–		–	–	
Balance, end of year	134.3	$ 884	$ 0.79	134.3	$ 884	$ 0.60
Non-voting preferred shares, *unlimited authorized*						
Series 1 non-cumulative redeemable Class A						
Balance, beginning of year	6.0	$ 148		–	$ –	
Issued during the year	–	–		6.0	148	
Balance, end of year	6.0	$ 148	$ 1.625	6.0	$ 148	$ 1.25
Series 2 non-cumulative redeemable Class A						
Balance	–	–		–	–	
Total		$ 1,032			$ 1,032	

Common shares: The Company is authorized to issue an unlimited number of common shares. Each common share is entitled to one vote at meetings of the shareholders of the Company.

Non-voting shares: The Company is authorized to issue shares that do not carry voting rights and that do not entitle the holders to participate in the residual value of the assets of the Company upon a liquidation or winding-up. The Company's by-law provides for the creation of seven classes of shares having three different priorities with respect to payment of dividends and distribution of assets in the event of the liquidation, dissolution or winding-up of the Company. Each class consists of an unlimited number of non-voting shares without par value, issuable in series. The by-law authorizes the Board of Directors to fix, prior to the issuance of any shares, their other rights, privileges, restrictions and conditions subject to the provisions of the Company's by-laws and the Insurance Companies Act (Canada).

In 2000, the Company issued six million non-cumulative redeemable Class A preferred shares, Series 1, at $25.00 per share for net proceeds of $148 million.

Details on the authorized non-voting shares are as follows:

Issue	Dividends	Redemption	Conversion
Class A, Series 1	Quarterly non-cumulative dividends at a per share rate of $0.40625 to June 30, 2005, and afterwards at a per share rate of $25.00 times one quarter of the greater of (i) 95% of the Prime Rate and (ii) 6.25%.	Starting June 30, 2005, the Company may redeem for a cash payment of not more than $25.50 per share.	Every 5 years starting June 30, 2005, shareholders may convert into Class A, Series 2.
Class A, Series 2	Quarterly non-cumulative dividends at a per share rate of $25.00 times at least 100% of the Government of Canada Yield, the exact percentage to be set by the Board prior to the quarter.	Every 5 years starting July 1, 2010, the Company may redeem, in whole but not in part, for a cash payment of $25.00 per share.	Every 5 years starting July 1, 2010, shareholders may convert into Class A, Series 1.

Redemptions must be approved by the Superintendent of Financial Institutions Canada. At any time, the Company may purchase Class A shares for cancellation at prevailing market prices.

b) Capital requirements

The Company's equity capital, which consists of shareholders' equity and participating policyholders' interest, is available to meet all policy obligations. The Company and its subsidiaries are subject to various capital requirements in their respective jurisdictions. Should these requirements not be met, the Company's ability to declare dividends could be constrained.

In Canada, OSFI has prescribed a Minimum Continuing Capital and Surplus Requirement (MCCSR) ratio of 120% as the minimum capital requirement. The ratio represents the Company's available capital as a percentage of its required capital. Available capital only includes capital that is permanent in nature or has a sufficiently long term to maturity. Required capital is calculated using a prescribed formula, which applies risk factors to various categories of the Company's assets and liabilities and summarizes the results. The calculation takes into consideration the nature of the Company's policyholder obligations and the investments held to provide for their ultimate discharge.

As at December 31, 2001, the Company's estimated MCCSR ratio of 202% (201% in 2000) is well above the prescribed minimum of 120%. The various capital requirements for the Company's operations in foreign jurisdictions were exceeded in all cases.

c) Stock incentive plans

(i) Management Plans

Under the Canadian and U.S. management stock incentive plans ("Management Plans"), participants are eligible to receive options on common shares. The number of options granted, the exercise price, the expiry date and any other terms, including terms relating to the vesting of options, are determined by the Board. However, the exercise price will not be less than the closing market price on the day prior to the grant date. Options will generally expire 10 years after grant date. Options vest at a rate of 25% of that year's grant on each of the first four anniversaries of the grant date.

The maximum number of shares that may be issued under the Management Plans is 6% of the outstanding common shares. In addition, the aggregate number of common shares reserved for issuance to any one individual shall not exceed 5% of the outstanding common shares at the time of granting of the options.

A summary of the activity in the Management Plans for the year is as follows:

	Number of common share options	Weighted average exercise price
Balance, beginning of year	1,241,100	$ 28.83
Granted	1,869,300	43.55
Exercised	2,725	28.83
Forfeited	23,475	29.37
Balance, end of year	3,084,200	$ 37.75
Exercisable options, end of year	367,050	$ 28.83

The following table summarizes information about stock options outstanding at December 31, 2001:

Options outstanding				Options exercisable	
Range of exercise prices	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life (in years)	Number exercisable	Weighted average exercise price
$20.00–$30.00	1,215,600	$ 28.83	8.56	367,050	$ 28.83
$30.01–$40.00	652,000	38.55	9.04	–	–
$40.01–$50.00	1,216,600	46.03	9.47	–	–
Total	3,084,200	$ 37.75	9.12	367,050	$ 28.83

(ii) Employee/Agent Share Ownership Programs

Under the Employee/Agent Share Ownership Programs, the Company matches 50% of employee/agent contributions. Employees/agents may choose to make eligible contributions up to 5% of their target annual compensation to a maximum of $3 thousand ($3 thousand in 2000) per year. Shares are purchased on the open market. The Employee Program began in August 2000 and the Agent Program began in January 2001.

d) Dividend restrictions

Dividends on common shares are declared at the discretion of the Board. The Company is prohibited under the Act from paying or declaring a dividend if there are reasonable grounds for believing that the Company is, or the payment would cause the Company to be, in contravention of any regulation made under the Act regarding the maintenance by life companies of adequate capital and adequate and appropriate forms of liquidity, or any direction to the Company made by the Superintendent of Financial Institutions Canada under section 515(3) of the Act. No such direction to the Company has been made to date.

e) Appropriation of capital

As a result of the conversion to a stock life company, an appropriation of $10 was made from the shareholder account to the participating account. The appropriation is seed capital for the participating account and has been appropriated to support new participating business. It is expected that this seed capital will be repaid over time, with interest, from the surplus in the participating account.

15. Earnings per common share

	2001	2000
Income before goodwill charges attributable to common shareholders	$ 434	$ 423
Goodwill charges attributable to common shareholders	20	90
Net income attributable to common shareholders	$ 414	$ 333
Basic earnings per common share before goodwill charges	$ 3.23	$ 3.15
Diluted earnings per common share before goodwill charges	$ 3.22	$ 3.15
Basic earnings per common share	$ 3.08	$ 2.48
Diluted earnings per common share	$ 3.07	$ 2.48

Earnings per common share is calculated using net income attributable to common shares and the monthly weighted average of the number of common shares outstanding for the period of 134.3 million. The diluted earnings per share calculation also includes incremental shares of 0.5 million, related to the options outstanding during the period and calculated under the treasury stock method.

16. Investment income

2001	Investment income	Amortization of realized & unrealized gains/ (losses)	Direct write-offs & net charge to loan provision[1]	Total
Marketable bonds	$ 677	$ 130	$ (10)	$ 797
Residential mortgage loans	198	1	(1)	198
Non-residential mortgage loans	369	–	1	370
Corporate loans	345	5	(9)	341
Stocks	69	50	–	119
Real estate[2]	39	18	–	57
Interest in real estate joint ventures[2]	25	–	–	25
Other	134	–	11	145
Total	$ 1,856	$ 204	$ (8)	$ 2,052

2000	Investment income	Amortization of realized & unrealized gains/ (losses)	Direct write-offs & net charge to loan provision[1]	Total
Marketable bonds	$ 697	$ 111	$ (1)	$ 807
Residential mortgage loans	237	2	(1)	238
Non-residential mortgage loans	359	–	(6)	353
Corporate loans	332	8	(10)	330
Stocks	50	100	–	150
Real estate[2]	30	19	(1)	48
Interest in real estate joint ventures[2]	20	–	–	20
Other	144	–	(11)	133
Total	$ 1,869	$ 240	$ (30)	$ 2,079

1 Direct write-offs and net charge to loan provision includes recoveries of $26 ($10 in 2000), none of which relates to restructured loans.

2 Investment income from real estate and interest in real estate joint ventures is presented net of operating expenses of $34 ($31 in 2000) and $43 ($43 in 2000), respectively.

17. Income taxes

The provision for income taxes in the *Consolidated Statement of Income* is based on transactions recorded in the consolidated financial statements regardless of when they are recognized for income tax purposes. In addition, income tax expense or benefit is recorded directly in retained earnings for those items recorded in shareholders' equity.

	2001	2000
Provision for income taxes reported in the *Consolidated Statement of Income*	$ 161	$ 249
Provision reported in shareholders' equity:		
Income tax benefit related to preferred share expenses	–	(2)
Income tax benefit related to foreign currency translation	(7)	(5)
Total income taxes	$ 154	$ 242

	2001	2000
Components of total income taxes		
Canadian income tax expense:		
Current	$ 13	$ 120
Future	99	89
	112	209
Foreign income tax expense:		
Current	9	22
Future	33	11
	42	33
Total income taxes	$ 154	$ 242

The provision for income taxes included in the *Consolidated Statement of Income* is different than that obtained by applying statutory tax rates to income before income taxes for the following reasons:

	2001		2000	
Provision for income taxes at Canadian statutory rates	$ 237	41.0 %	$ 250	42.5 %
Increase (decrease) resulting from:				
Foreign operations subject to different tax rates	(14)	(2.4)%	(8)	(1.4)%
Non-taxable investment income	(41)	(7.1)%	(36)	(6.1)%
Non-deductible amortization of goodwill	8	1.4 %	43	7.3 %
Capital taxes	9	1.6 %	11	1.9 %
Tax adjustments	(26)	(4.5)%	–	–
Other	(12)	(2.3)%	(11)	(2.0)%
Income taxes and effective rate	$ 161	27.7 %	$ 249	42.2 %

The following table presents the net future tax liability (asset), which is reported in other liabilities (assets), and the principal components to which it relates:

	2001			2000		
	Canada	United States	Total	Canada	United States	Total
Policy liabilities	$ 119	$ 133	$ 252	$ 123	$ 92	$ 215
Investments	(18)	(7)	(25)	(103)	(20)	(123)
Other	(22)	(103)	(125)	(48)	(69)	(117)
Net future income tax liability (asset)	$ 79	$ 23	$ 102	$ (28)	$ 3	$ (25)

The Company is subject to Canadian taxation on the income earned in our foreign branch and foreign subsidiaries only when repatriated to Canada. Upon repatriation of these earnings, the Company will be required to pay tax on certain of these earnings. As repatriation of such earnings is not currently planned, the future tax liability has not been recognized.

18. Employee future benefits

The Company has a number of pension plans and other benefit plans that cover essentially all of its employees and some of its agents. The pension plans are both contributory and non-contributory, and benefits are provided on defined benefit and defined contribution bases. The benefits provided reflect compensation history, length of service and level of contributions. Pension assets consist principally of Canadian equities, government and corporate bonds. The most recent actuarial valuation was prepared effective January 1, 2002.

Information about the Company's defined benefit plans, in aggregate, is as follows:

	2001		2000	
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
Accrued benefit obligation				
Balance, beginning of year	$ 422	$ 87	$ 383	$ 78
Current service cost	20	3	19	3
Interest cost	28	5	25	5
Benefits paid	(21)	(1)	(20)	(2)
Actuarial losses (gains)	(7)	13	15	3
Balance, end of year	442	107	422	87
Plan assets				
Fair value, beginning of year	481	–	460	–
Actual return on plan assets	(28)	–	28	–
Employer contributions	24	–	12	–
Benefits paid	(19)	–	(20)	–
Foreign exchange rate changes	1	–	1	–
Fair value, end of year	459	–	481	–
Funded status – plan surplus (deficit)	17	(107)	59	(87)
Unamortized net actuarial loss (gain)	(74)	22	(84)	12
Accrued benefit liability	(57)	(85)	(25)	(75)
Valuation allowance	–	–	(38)	–
Accrued benefit liability, net of valuation allowance	$ (57)	$ (85)	$ (63)	$ (75)

The non-pension benefit plans are unfunded. There are no accrued benefit obligation and fair value of plan assets of defined benefit pension plans with accrued benefit obligations in excess of plan assets.

Pension plan assets do not include common shares of the Company.

The following is a summary of the weighted average significant actuarial assumptions used in measuring the Company's accrued benefit obligations:

	2001		2000	
(in percentages)	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
Discount rate	6.7	6.7	6.5	6.5
Expected long-term rate of return on plan assets	6.7	n/a	6.5	n/a
Rate of compensation increase	3.8	n/a	3.6	n/a

In determining the expected cost of health care benefit plans, it is assumed that the health care costs will increase by 8.0% in 2002, then the rate of increase will decline gradually to 5.8% in 2027 and remain level thereafter. In determining the expected cost of dental benefit plans, it is assumed that the dental costs will increase by 6.6% in 2002, then the rate of increase will decline gradually to 5.3% in 2027 and remain level thereafter.

The Company's net benefit plan expense is as follows:

	2001		2000	
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
Current service cost	$ 20	$ 3	$ 19	$ 3
Interest cost	28	5	25	5
Expected return on plan assets	(30)	–	(29)	–
Amortization of net actuarial gain (loss)	(2)	1	(4)	–
Valuation allowance provided against accrued benefit asset	–	–	3	–
Net benefit plan expense	$ 16	$ 9	$ 14	$ 8

19. Derivative instruments

The Company's derivative instruments include options, futures, forward contracts, swaps and equity derivatives. The market and credit risks associated with these instruments, as well as the operating risks, are similar to those relating to other types of financial instruments. The Company manages overall exposures on a comprehensive basis through prudent risk limits, hedging strategies and timely reporting.

The Company enters into derivative contracts for asset liability management (ALM) purposes. ALM involves managing interest and foreign currency exposures from on balance sheet positions.

a) Notional principal amounts

The following table summarizes the total notional principal amounts classed as either over-the-counter or exchange-traded contracts:

	2001	2000
Over-the-counter (OTC) contracts:		
Interest rate contracts		
Forward rate agreements	$ 227	$ –
Swap contracts	1,826	2,139
Options purchased	580	328
Options written	60	–
	2,693	2,467
Foreign exchange contracts		
Forward contracts	2,347	1,998
Swap contracts	772	797
Options written	–	39
	3,119	2,834
Other contracts	422	101
Total OTC contracts	6,234	5,402
Exchange-traded contracts:		
Other contracts	–	213
Total	$ 6,234	$ 5,615

The notional principal amounts by remaining term to maturity are as follows:

	Term to maturity				2001 Total	2000 Total
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Notional amount	Notional amount
Interest rate contracts	$ 771	$ 1,294	$ 217	$ 411	$ 2,693	$ 2,467
Foreign exchange contracts	2,375	175	353	216	3,119	2,834
Other derivative contracts	164	184	17	57	422	314
Total	$ 3,310	$ 1,653	$ 587	$ 684	$ 6,234	$ 5,615

As at December 31, 2001, all derivative contracts are with financial institutions.

b) Credit exposure

The following provides a summary of the Company's derivative portfolio and related credit exposure:

	2001				2000			
	Notional principal	Current credit risk	Credit equivalent amount	Risk weighted balance	Notional principal	Current credit risk	Credit equivalent amount	Risk weighted balance
Interest rate contracts	$ 2,693	$ 128	$ 144	$ 29	$ 2,467	$ 104	$ 120	$ 24
Foreign exchange contracts	3,119	14	89	18	2,834	55	128	26
Other derivative contracts	422	6	275	55	314	3	12	5
Total	$ 6,234	$ 148	$ 508	$ 102	$ 5,615	$ 162	$ 260	$ 55

The Company uses a variety of credit risk reduction techniques including collateral margins, recouponing arrangements and termination and closeout agreements. The credit exposure amounts do not reflect the impact of collateral received by the Company from counterparties or the impact of master netting agreements.

c) Fair value of derivative instruments

When available, quoted market prices are used to determine the fair value of derivative instruments. In all other cases, fair values are based on present value estimates of the future cash flows. These fair values can change on a daily basis if there is any change in the rates or indices on which the exchange of cash flows are based.

The following table provides the estimated fair values of the Company's derivative instrument portfolio as at December 31:

	2001		2000	
	Positive	Negative	Positive	Negative
Interest rate contracts	$ 128	$ 28	$ 104	$ 22
Foreign exchange contracts	14	95	55	56
Other derivative contracts	6	2	3	3
Total	$ 148	$ 125	$ 162	$ 81

20. Commitments and contingencies

a) Purchase and loan commitments

Outstanding commitments for future mortgage and corporate loans are $849 at December 31, 2001 ($639 in 2000). The commitments for mortgage and corporate loans run for periods no longer than 75 days.

b) Operating lease commitments

The Company and its subsidiaries have contractual obligations in respect of rental payments on leased premises and equipment. As at December 31, 2001, minimum payments under these leases are in amounts from $23 to $34, for a total of $155 over the next five years.

c) Contingencies

The Company is currently involved in two potential class actions involving the premium offset sales concept, the availability of policy dividends to pay future premiums. One of these proceedings was commenced in Ontario, the other in Quebec. The Quebec action has not proceeded, but the Company has been actively defending the Ontario based litigation. In October 2000, an Ontario motions judge agreed with the Company and ruled that it was not appropriate for the Ontario lawsuit to be certified as a class action. This ruling was upheld on appeal when in December 2001, the Ontario Divisional Court also agreed with the Company's submissions and dismissed the appeal. The plaintiff has decided to appeal to the next level, the Ontario Court of Appeal, but a hearing date has not yet been set.

In addition, the Company and its subsidiaries are involved on an ongoing basis in various legal actions arising in the normal course of business. In management's opinion, the resolution of these actions will not have a material adverse effect on the financial condition of the companies.

d) Guarantees

As at December 31, 2001, the Company had guarantees outstanding of $84 ($68 in 2000).

21. Goodwill charges

In 1998, the Company acquired The Metropolitan Life Insurance Company of Canada ("MetCan") and recognized goodwill on the acquisition of $525. The remaining goodwill was being charged against income over 20 years, reflecting the anticipated future earnings of the acquired business. During 2000, the Company transferred two blocks of business acquired in the MetCan acquisition to other insurers, reducing the future earnings embedded in the remaining goodwill. Goodwill has been reduced by $67, the impact of which was fully offset by a reduction in actuarial liabilities. Total goodwill charges for 2000 were $108, including $41 of amortization.

22. Segmented information

The Company operates a variety of business segments, each offering different products and services to meet customers' needs.

The par Retail Insurance segment provides individual insurance products on a participating basis. Products include life insurance, and supplementary insurance benefits and riders.

The non-par Retail Insurance segment provides individual insurance products on a non-participating basis. Products include life insurance, personal health insurance, critical illness insurance, long term care insurance, and supplementary insurance benefits and riders.

The Group Insurance segment provides group life, dental, prescription drug, long- and short-term disability, accidental death and dismemberment, and supplemental health care insurance.

The Wealth Management segment provides wealth accumulation and retirement products to retail and group clients on both a fixed-rate and market basis. Products include guaranteed and payout annuities, Guaranteed Investment Certificates (GICs), mutual funds and segregated funds.

The U.S. Insurance & Savings segment includes the distribution of a diversified portfolio of universal life insurance products primarily for protection and accumulation of funds for retirement needs.

The Reinsurance segment includes the business of life, accident and health reinsurance, specifically life retrocession and special risk reinsurance.

The Surplus segment includes the surplus portfolio for Canada and the U.S., as well as corporate expenses.

2001	Canada Retail Insurance	Canada Wealth Management	Canada Group Insurance	United States Insurance & Savings	United States Reinsurance	Surplus	Total
Income							
Premiums	$ 1,256	$ 583	$ 895	$ 858	$ 423	$ –	$ 4,015
Investment income	566	834	144	183	31	294	2,052
Fees & other income	6	211	42	12	3	–	274
Total income	1,828	1,628	1,081	1,053	457	294	6,341
Benefits & expenses	1,676	1,486	1,012	1,019	409	137	5,739
Income taxes	53	47	28	11	11	11	161
	1,729	1,533	1,040	1,030	420	148	5,900
Net income before goodwill charges	99	95	41	23	37	146	441
Goodwill charges, net of tax	5	13	4	–	–	–	22
Net income	$ 94	$ 82	$ 37	$ 23	$ 37	$ 146	$ 419
Summary of net income							
Undistributed participating policyholders' loss	$ (5)	$ –	$ –	$ –	$ –	$ –	$ (5)
Dividends on preferred shares	–	–	–	–	–	10	10
Net income attributable to shareholders	99	82	37	23	37	136	414
Net income	$ 94	$ 82	$ 37	$ 23	$ 37	$ 146	$ 419
Amortization of realized & unrealized gains	$ 69	$ 65	$ 12	$ 5	$ –	$ 53	$ 204

2000	Canada: Retail Insurance	Canada: Wealth Management	Canada: Group Insurance	United States: Insurance & Savings	United States: Reinsurance	Surplus	Total
Income							
Premiums	$ 1,227	$ 652	$ 870	$ 398	$ 383	$ –	$ 3,530
Investment income	584	898	149	158	31	259	2,079
Fees & other income	6	196	37	–	1	2	242
Total income	1,817	1,746	1,056	556	415	261	5,851
Benefits & expenses	1,572	1,576	999	533	371	103	5,154
Income taxes	92	62	24	7	15	49	249
	1,664	1,638	1,023	540	386	152	5,403
Net income before goodwill charges	153	108	33	16	29	109	448
Goodwill charges, net of tax	77	22	7	–	–	2	108
Net income	$ 76	$ 86	$ 26	$ 16	$ 29	$ 107	$ 340
Summary of net income							
Undistributed participating policyholders' income	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Dividends on preferred shares	–	–	–	–	–	7	7
Net income attributable to shareholders	76	86	26	16	29	100	333
Net income	$ 76	$ 86	$ 26	$ 16	$ 29	$ 107	$ 340
Amortization of realized & unrealized gains	$ 89	$ 57	$ 17	$ 4	$ –	$ 73	$ 240

23. Subsequent event

On December 17, 2001, Sun Life Financial Services of Canada Inc. announced its proposal to acquire 100% of the outstanding common shares of Clarica Life Insurance Company. The circular advising the Clarica Life Insurance shareholders and voting policyholders of the offer to exchange each Clarica share for 1.5135 common shares of Sun Life Financial Services of Canada Inc., was mailed on January 25, 2002 and the Board of Directors is recommending that the shareholders vote to approve the transaction at a special meeting on March 6, 2002. The acquisition is subject to approval by certain regulators including OSFI, the Competition Bureau and the Minister of Finance. Subject to all approvals being received, the transaction is expected to close in the second quarter.

Board of Directors

ROBERT M. ASTLEY
HON. B.SC., FSA, FCIA
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CLARICA LIFE INSURANCE COMPANY

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P.ENG., MBA
WESTMOUNT, QUEBEC
PRESIDENT AND CEO,
COGECO INC.

WILLIAM P. COOPER
B.SC., P.ENG., FCSCE
OAKVILLE, ONTARIO
PRESIDENT AND CEO,
COOPER CONSTRUCTION LIMITED

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FCA
NORTH SAANICH, BRITISH COLUMBIA
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& THORVALDSON

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IDALENE F. KESNER
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BLOOMINGTON, INDIANA
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INDIANA UNIVERSITY

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HON. B.SC.
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PRESIDENT, NETWORK OPERATIONS
BELL CANADA

W. JOHN WRIGHT
BA
TORONTO, ONTARIO
SENIOR VICE-PRESIDENT,
IPSOS-REID

Clarica's Board draws its directors from all regions of Canada. It also includes representation from the United States to reflect the North American focus of the Company's operations. The Directors represent a variety of professions and industries, with experience in organizations of varying size. They bring a wealth of knowledge and leadership experience to bear on the issues facing the Company. There are currently 17 directors, one of whom is an officer of Clarica.

Clarica's Board of Directors is accountable to the key stakeholders of the Company – its shareholders and participating policyholders. Among its many functions, the Board:

- supervises the management of the Company's business affairs;
- ensures management performs its stewardship role in the day-to-day operations of the Company;
- oversees Clarica's operations to ensure its financial strength and strategic direction, and the strength of its staff and sales organization; and
- monitors and evaluates the timely and accurate reporting of results to shareholders and other stakeholders.

CLARICA RECEIVES GOVERNANCE AWARD

The Conference Board of Canada and Spencer Stuart Canada declared Clarica the private sector winner and the overall winner in the 2002 National Awards in Governance. The awards recognize companies that demonstrate outstanding leadership in corporate governance through practices and procedures put in place by their boards. Clarica was recognized in particular for disclosure, communication and governance during demutualization. Our Board ensured proper measures were in place for increased market scrutiny, and ensured that Clarica met the expectations of its policyholders and new shareholders.

Corporate leadership team

DAVID A. GANONG
MBA
CHAIRMAN OF THE BOARD

ROBERT M. ASTLEY
HON. B.SC., FSA, FCIA
PRESIDENT AND
CHIEF EXECUTIVE OFFICER
CLARICA LIFE INSURANCE
COMPANY AND CLARICA
TRUST COMPANY

CORPORATE UNIT

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CHIEF FINANCIAL OFFICER

HUBERT SAINT-ONGE
MA
SENIOR VICE-PRESIDENT
STRATEGIC CAPABILITIES

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FSA, FCIA, MAAA
SENIOR VICE-PRESIDENT AND
CHIEF ACTUARY

MARY E. DUNCAN
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SENIOR VICE-PRESIDENT,
GENERAL COUNSEL AND
CORPORATE SECRETARY

STEPHEN FILBY
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STRATEGY DEVELOPMENT
VICE-PRESIDENT

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HON. BA, MA ENGLISH,
MA JOURNALISM
CORPORATE COMMUNICATIONS
VICE-PRESIDENT

NEIL L. HAYNES
FSA, FCIA
VICE-PRESIDENT
STRATEGIC ACQUISITIONS

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CORPORATE FINANCE
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CMA
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STRATEGY AND RESEARCH
VICE-PRESIDENT

DIANNE ROMANO
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VICE-PRESIDENT
CORPORATE TAXATION

VIVIAN ZOCHOWSKI
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CANADIAN CUSTOMERS

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RETAIL INSURANCE
VICE-PRESIDENT

D'ARCY DELAMERE
BA, MBA, FICB
VICE-PRESIDENT
GROUP INSURANCE
(SALES AND SERVICE)

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HON. B.E.S
VICE-PRESIDENT
e-BUSINESS AND MARKETING

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CFP, CLU, CHFC
VICE-PRESIDENT
CAREER SALES FORCE

MARC GERVAIS
BUSINESS SOLUTIONS
VICE-PRESIDENT

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HON. B.C.Sc.
VICE-PRESIDENT AND
CHIEF INFORMATION OFFICER

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RETAIL WEALTH ACCUMULATION
VICE-PRESIDENT

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VICE-PRESIDENT
GROUP INSURANCE
(DISABILITY MANAGEMENT)

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FSA, FCIA
VICE-PRESIDENT
CCBU ACTUARIAL

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FSA, FCIA
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BA
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BUSINESS DEVELOPMENT

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VICE-PRESIDENT

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FSA, FCIA
SENIOR VICE-PRESIDENT
GROUP INSURANCE

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PENSION AND GROUP SAVINGS

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AND REAL ESTATE

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(US)

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SENIOR VICE-PRESIDENT
LIFE REINSURANCE

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SENIOR VICE-PRESIDENT
REINSURANCE (US)

UNITED STATES

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PRESIDENT AND CEO
CLARICA U.S. INC.

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CHIEF ACTUARY

BRUCE J. CROZIER
FSA, MAAA
SENIOR VICE-PRESIDENT

KEVIN M. HEIL
CPA
VICE-PRESIDENT
CHIEF FINANCIAL OFFICER

MELODY JENSEN
BA, JD
GENERAL COUNSEL
VICE-PRESIDENT

GUY R. MONTAG
AB, JD
VICE-PRESIDENT
STRATEGIC OPPORTUNITIES
AND SECRETARY

DANIEL E. PETERSON
LLIF, LUTCF
VICE-PRESIDENT
SALES AND MARKETING

PETER W. VAN DYK
B.MATH., FLMI
VICE-PRESIDENT AND
CHIEF INFORMATION OFFICER

Corporate structure

Company name	Principal address	Book value (Cdn$, in thousands)	Percentage of voting rights held
Clarica Life Insurance Company			
Clarica Trustco Inc.	Waterloo, Ontario	102,203	100
Clarica Trust Company	Waterloo, Ontario		100
Seel Mortgage Investment Corporation	Toronto, Ontario		100
Clarica Diversico Limited	Waterloo, Ontario	35,164	100
Clarica MEEL Holdings Limited	Waterloo, Ontario	2,570	100
Mississauga Executive Enterprises Ltd.	Mississauga, Ontario		50
Clarica Investco Inc.	Toronto, Ontario	16,494	100
RDC Property Services Limited	Waterloo, Ontario	28	100
Clarica U.S. Inc.	Brookfield, Wisconsin	580,522	100
Clarica Life Insurance Company – U.S.	Brookfield, Wisconsin		100
WSLIC Marketing Corporation	Fargo, North Dakota		100
Western States Development Corporation	Fargo, North Dakota		100
Clarica Membership Services Inc.	Milwaukee, Wisconsin		100
Ash Brokerage Corporation	Fort Wayne, Indiana		85
AFH Financial Consortium, Inc.	Fort Wayne, Indiana		85
Clarica Reinsurance (Ireland) Limited	Dublin, Ireland	73,726	100
Clarica Reinsurance Holdings Inc.	Brookfield, Wisconsin	45,271	100
Clarica Reinsurance (Barbados) Limited	St. Michael, Barbados		100
Clarica Insurance (Barbados) Limited	St. Michael, Barbados		100
Clarica Life Reinsurance Company	Brookfield, Wisconsin		100
1503340 Ontario Inc.	Waterloo, Ontario	159,930	100

Shareholder and corporate information

Corporate office
Clarica Life Insurance Company
227 King Street South
Waterloo, Ontario
Canada N2J 4C5
www.clarica.com

Investor, broker and security analyst information
For financial information, please contact:
Vivian Zochowski
Vice-President, Investor Relations
1-519-888-2733
1-877-790-0295 (toll-free)
vivian.zochowski@clarica.com
investor.relations@clarica.com

Shareholder administration
For change of address, dividend information, estate transfer information, share certificates or other shareholder administrative issues, shareholders are requested to contact CIBC Mellon Trust Company directly.

By phone toll-free:
CIBC Mellon Trust Company
1-888-259-3888 (English)
1-888-265-8339 (French)
(Monday–Friday 8:30 a.m.–6:30 p.m. EST)
1-800-349-4996 (fax)
Inquiries@CIBCMellon.com

By mail:
Clarica Shareholder Service
CIBC Mellon Trust Company
P.O. Box 7010
Adelaide St. Postal Station
Toronto, Ontario, Canada M5C 2W9

Toronto Stock Exchange information

Stock	Ticker symbol
Common shares	CLI
Preferred shares, Series 1	CLI.PR.A

Common share information
(as at December 31, 2001)
Share price: $52.55
Shares outstanding: 134.3 million
Market capitalization: $7.1 billion

Policyholder information

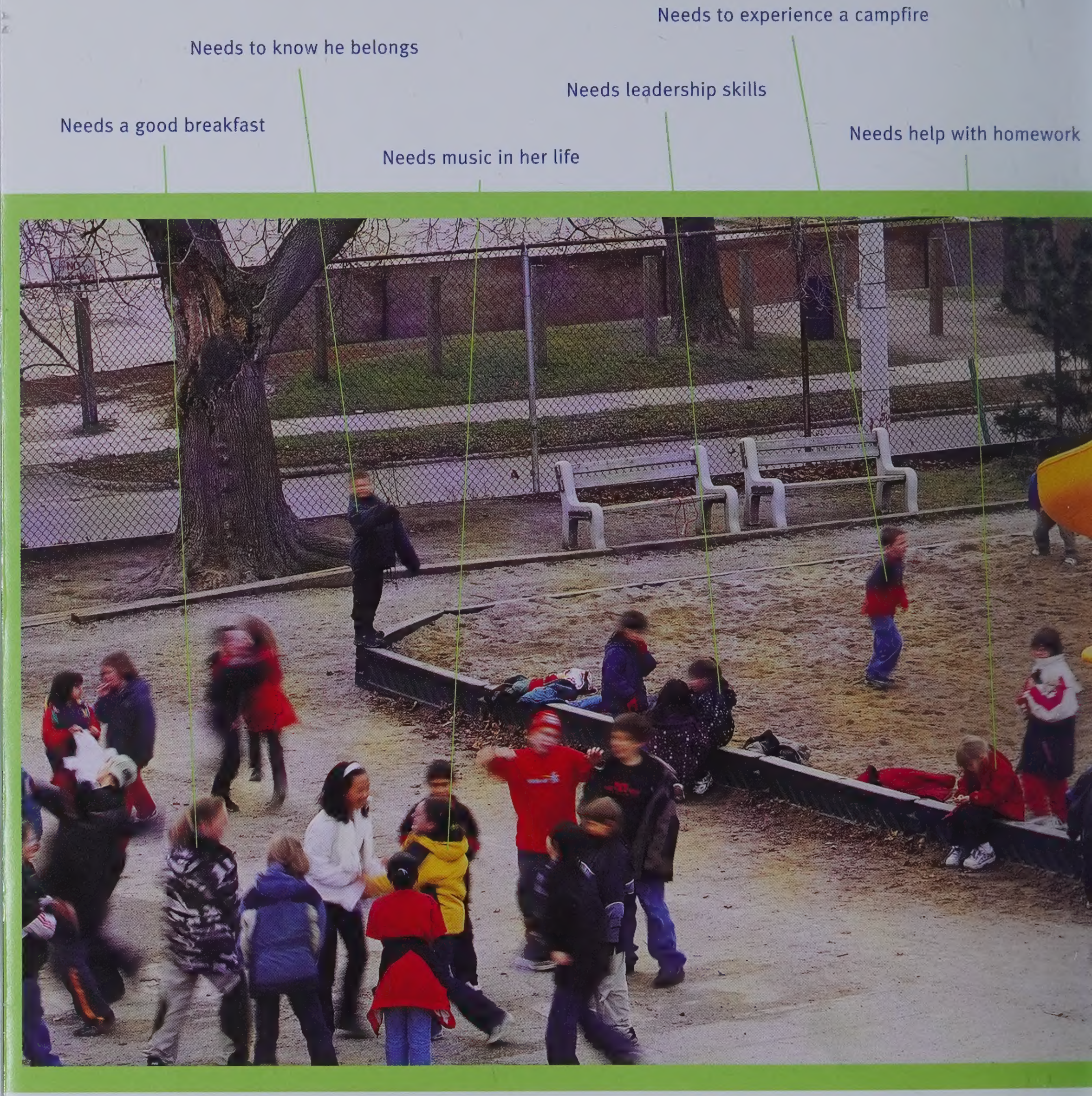
Summary participating policyholder dividend statement
Each participating policy contains a clause describing the right to share in the dividend distribution of the Company. The Board of Directors determines annually the total amount to be distributed and how that amount is shared among participating policyholders. The Board has adopted a policyholder dividend policy to guide this determination.

The amount to be distributed is based on the annual experience gain achieved on participating policies, taking into account claims experience, expenses and investment gains for each type of policy.

Policyholder administration
For change of address, statement requests, estate transfer information and other policyholder administrative issues, policyholders are requested to contact:

By mail:
Customer Service Centre
Clarica Life Insurance Company
227 King Street South
P.O. Box 1601, STN Waterloo
Waterloo, Ontario, Canada N2J 4C5
Canada: www.clarica.com
United States: www.clarica-us.com

By phone toll-free:
1-888-864-5463 (English)
1-888-456-2843 (French)
(Monday–Friday 7:00 a.m.–8:00 p.m. EST)



Clarica's Contribution

Building for the future. Meeting real needs.

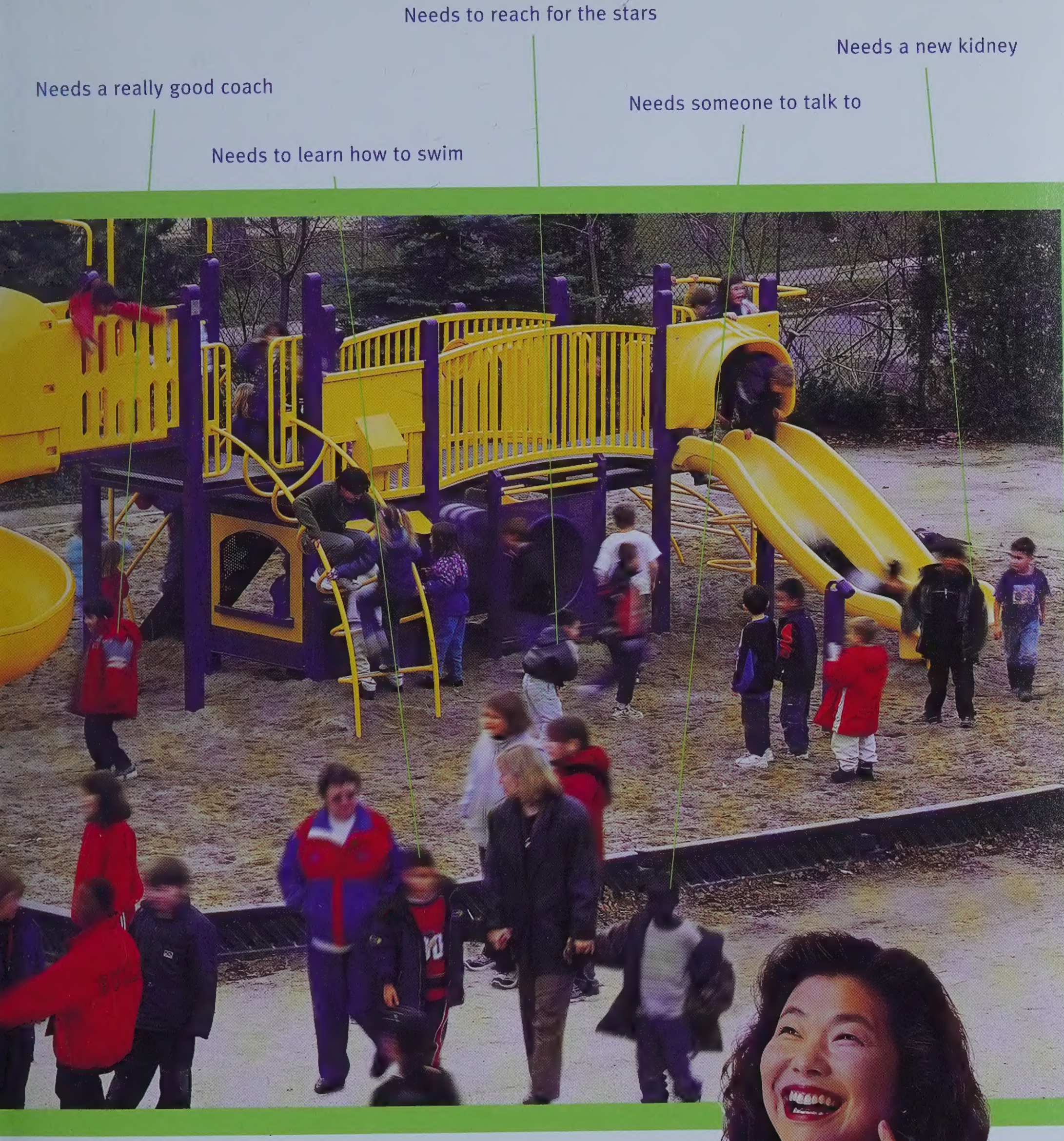
Our award-winning Canadian citizenship program, Clarica's Contribution, supports issues that matter to our people and that meet real needs. This program focuses on three areas for giving – children, organ donation and education.

In 2001, we introduced a ground-breaking approach to handling grant requests, increasing internal and external collaboration. We announced a request for proposals to improve hospital organ donation programs. Our panel of staff, agents and expert advisors selected seven projects with potential to increase organ donations and save lives. We also announced a request for proposals for Clarica's Contribution to Canada's Children, which funds projects that benefit school-aged children.

Rounding out Clarica's Contribution, our Matching Gifts Program enhances our individual charitable contributions, and our new Volunteer Program recognizes the time and expertise we – and our families – give to our communities. Clarica also supports community-based organizations such as United Way, matching all member donations dollar for dollar.

Clarica's Contribution 2001, a detailed report on the Company's citizenship programs, is now available. You can read it online or request a paper copy at www.clarica.com under About Clarica, In the community.

To request a copy by telephone, call toll-free: 1-800-248-0779.



"I am a big supporter of Clarica's commitment to meet community needs. I volunteer my time with my local school and encourage others in my branch to volunteer too. I am proud of the contribution Clarica makes to my community, and proud of the difference I make!"

PING MAH: CLARICA ASSOCIATE BRANCH MANAGER, REGISTERED NURSE, HEART AND STROKE FOUNDATION VOLUNTEER (CHINESE CANADIAN COUNCIL) AND HIGH SCHOOL COMMUNITY REPRESENTATIVE

Imagine A Caring Company

CLARICA®